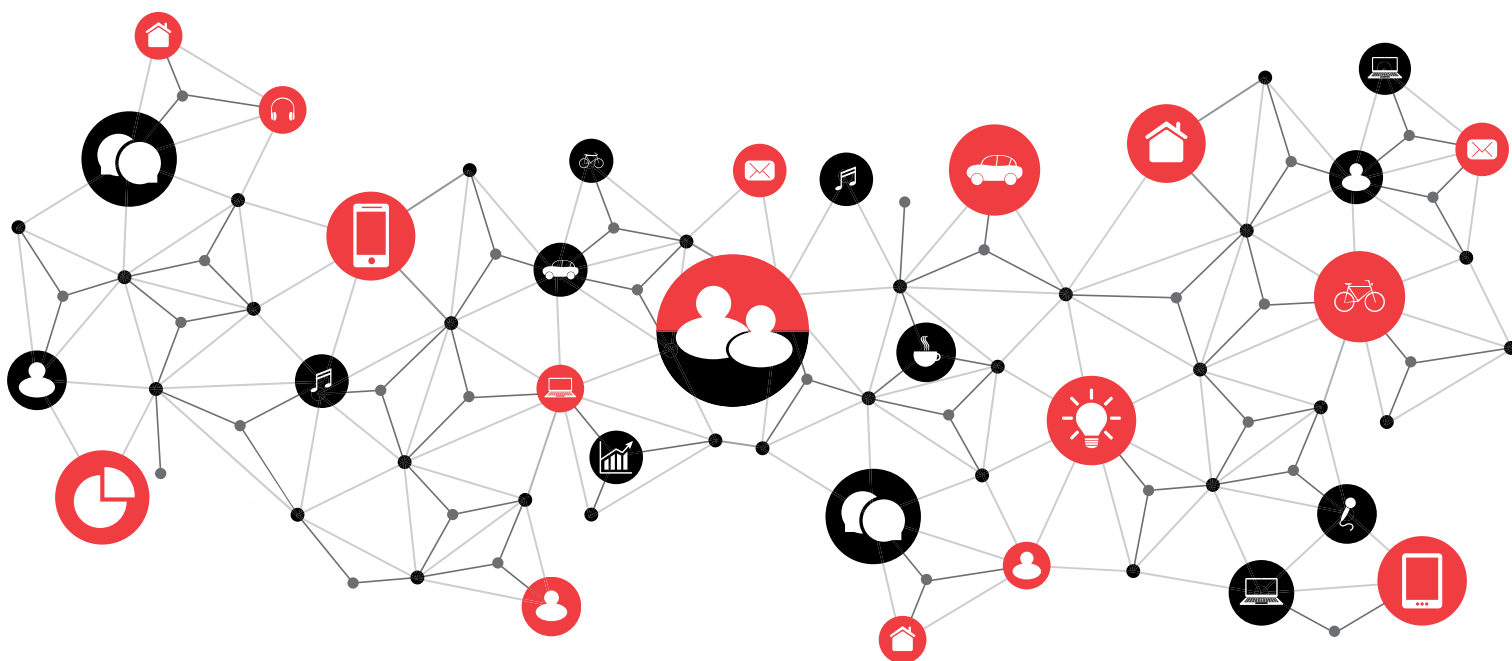


# ANNUAL REPORT 2017

Komerční banka, a.s.



## NA PARTNERSTVÍ ZÁLEŽÍ



# KB

# I Survey of results 2013–2017

According to International Financial Reporting Standards (IFRS)

Consolidated data (CZK million)	2017	2016	2015	2014	2013
<b>Financial results</b>					
Net operating income	31,060	31,750	31,044	30,677	30,894
of which Net interest income	20,808	21,067	21,357	21,423	21,207
of which Net fees and commissions	6,465	6,683	6,968	6,752	7,077
of which Net profit on financial operations	3,576	3,837	2,610	2,385	2,490
Total operating costs	(13,375)	(14,026)	(14,352)	(13,065)	(13,148)
Attributable net profit	14,930	13,688	12,758	12,954	12,528
Earnings per share (CZK) <sup>1</sup>	79.05	72.48	67.55	68.59	66.34
<b>Balance sheet</b>					
Total assets	1,004,039	922,737	891,556	953,261	863,980
Loans and advances to customers, net	598,102	580,198	532,617	494,706	473,089
Amounts due to customers	762,043	699,377	656,287	701,867	649,158
Total shareholders' equity	100,346	105,401	106,229	109,494	96,538
<b>Ratios (%)<sup>2</sup></b>					
Return on average equity (ROAE)	15.07	13.42	12.22	12.95	13.09
Return on average assets (ROAA)	1.55	1.51	1.38	1.43	1.52
Net interest margin	2.33	2.53	2.60	n.a.	n.a.
Cost/income ratio	43.06	44.18	46.23	42.59	42.56
<b>Capital<sup>3</sup></b>					
Capital adequacy (%)	18.63	16.18	16.34	16.42	15.81
Tier 1 ratio (%)	18.02	16.18	16.34	16.42	15.81
Tier 1	76,525	71,659	66,606	63,095	61,722
Tier 2	2,560	0	0	0	0
Total regulatory capital	79,084	71,659	66,606	63,095	59,087
Total risk-weighted assets	424,566	442,865	407,642	384,186	373,796
<b>Other data</b>					
Number of employees, average	8,492	8,476	8,426	8,520	8,604

Credit ratings (as of end of February 2018) <sup>4</sup>	Short-term	Long-term
Standard & Poor's	A-1	A
Moody's	Prime-1	A2
Fitch	F1	A-

## Notes

1. Adjusted for the effect of 1-to-5 split of KB shares implemented in April 2016

2. According to the Komerční banka methodology

3. According to Basel II methodology 2013, Basel III since 2014

4. KB was assigned a credit rating by rating agencies registered under Regulation of the European Parliament and Council Regulation (EC) No. 462/2013. KB has considered appointment of rating agencies in accordance with Article 8d of this Regulation and decided not to appoint a rating agency whose market share is smaller than 10%.

Definitions of the Alternative Performance Measures mentioned in this annual report are provided in the respective chapter herein.

Separate data (CZK million)	2017	2016	2015	2014	2013
<b>Financial results</b>					
Net operating income	29,216	30,608	28,995	27,762	28,952
of which Net interest income	19,517	20,571	19,883	18,875	18,923
of which Net fees and commissions	5,853	5,979	6,287	6,370	6,672
of which Net profit on financial operations	3,570	3,830	2,665	2,363	3,203
Total operating costs	(12,979)	(12,710)	(13,113)	(11,871)	(11,790)
Net profit	14,914	14,119	12,424	12,768	13,123
<b>Balance sheet</b>					
Total assets	946,072	868,065	835,526	862,766	773,892
Loans and advances to customers, net	535,321	527,143	484,474	449,180	423,295
Amounts due to customers	702,053	638,410	593,059	601,412	552,253
Total shareholders' equity	88,604	93,032	93,303	95,634	83,702
<b>Ratios (%)<sup>1</sup></b>					
Return on average equity (ROAE)	16.42	15.15	13.15	14.24	15.33
Return on average assets (ROAA)	1.64	1.66	1.46	1.56	1.79
Net interest margin	2.13	2.34	n.a.	n.a.	n.a.
Cost/income ratio	44.42	41.53	45.23	42.76	40.72
<b>Capital<sup>2</sup></b>					
Capital adequacy (%)	19.41	16.91	16.66	17.05	16.01
Tier 1 ratio (%)	18.75	16.91	16.66	17.05	16.01
Tier 1	72,622	67,263	61,665	59,151	54,944
Tier 2	2,559	0	0	0	0
Total regulatory capital	75,181	67,263	61,665	59,151	52,902
Total risk-weighted assets	387,330	397,796	370,228	346,938	330,444
<b>Other data</b>					
Number of employees, average	7,551	7,549	7,538	7,624	7,706
Number of points of sale	387	392	397	399	399
Number of clients (thousands)	1,664	1,654	1,647	1,626	1,589
Number of ATMs	764	768	772	754	729

#### Notes

1. According to the Komerční banka methodology
2. According to Basel II methodology 2013, Basel III since 2014

Definitions of the Alternative Performance Measures mentioned in this annual report are provided in the respective chapter herein.

## Further information

Detailed financial and operational information about Komerční banka Group is available in other publications on KB's website for shareholders and investors [www.kb.cz/investors](http://www.kb.cz/investors). Additional information on corporate social responsibility and ethics at KB is available in the 'Corporate Social Responsibility' section at <http://www.kb.cz/csr>. Information about KB's products and services is accessible from the homepage [www.kb.cz/en](http://www.kb.cz/en).

This document contains a number of forward-looking statements relating to the targets and strategies of Komerční banka Group. These statements are based

on a series of assumptions, both general and specific. As a result, there is a risk that these projections will not be fulfilled. Forward-looking statements are valid only as of the date they are made, and it should not be assumed that they will be revised or updated in the light of new information or future events. Readers are therefore advised not to rely on this information more than is justified, as the Group's future results are liable to be affected by a number of factors and may therefore differ from current estimates.

Readers are advised to take into account factors of uncertainty and risk when basing their investment decisions on information provided in this document.

## Contacts

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 Email: [mojebanka@kb.cz](mailto:mojebanka@kb.cz)  
 Internet: [www.kb.cz/investors](http://www.kb.cz/investors)

### Contact for shareholders and investors:

Investor Relations  
 Telephone: (+420) 955 532 155,  
 955 532 156,  
 955 532 734  
 Email: [investor\\_relations@kb.cz](mailto:investor_relations@kb.cz)

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**Loans to clients**

(KB Group, gross loans, CZK billion)\*

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2016	595.4	
2017	606.1	

**CZK 606.1 bil. +1.8%**

\* excluding 'Other amounts due from customers' and repo operation with clients

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**Client deposits**

(KB Group, CZK billion)\*

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2016	694.2	
2017	756.0	

**CZK 756.0 bil. +8.9%**

\* excluding repo operations with clients

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**Profit attributable to the Group's equity holders**  
(CZK billion)

2016	13.7	
2017	14.9	

**CZK 14.9 bil. +9.1%**

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**Number of standalone Bank clients**

2016	1,654,000	
2017	1,664,000	

**1,664,000 clients +0.6%**

# ANNUAL REPORT 2017

Komerční banka, a.s.

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## History

Komerční banka was established in 1990 as a state institution, and in 1992 it was transformed into a joint-stock company. KB's shares have been listed on the Prague Stock Exchange since its inception in 1993, as well as within the RM-System.

In 2001, the state's 60% holding in Komerční banka was purchased by Société Générale. Following privatisation, KB began significantly to develop its activities for individual customers and entrepreneurs while continuing to build on its traditionally strong position in the enterprises and municipalities market.

In developing its retail activities, KB purchased in 2006 the remaining 60% of shares in Modrá pyramida it did not already own. Thereby, Komerční banka attained full control over the Czech Republic's third largest building society. Another important step in extending the offer of financial solutions to our clients was the acquisition in May 2011 of a 50.1% stake in SGEF, a leading provider of asset-backed financing in the Czech Republic and which through its branch is active also in Slovakia. In July 2016, KB's subsidiary ESSOX concluded the acquisitions of 100% ownership stakes in the PSA Finance CZ and PSA Finance SK automotive finance companies. The three companies are fully consolidated as of 1 January 2018.

## Société Générale Group

Komerční banka has been an important part of Société Générale Group's international retail banking since October 2001. Société Générale is one of the largest European financial services groups. Based on a diversified universal banking model, SG Group combines financial solidity with a strategy of sustainable growth. It aims to be the reference for relationship banking, recognised on its markets, close to clients, and chosen for the quality and commitment of its teams.

Société Générale has been playing a vital role in the economy for 150 years. With more than 147,000 employees, based in 67 countries, SG Group serves 31 million clients throughout the world. Société Générale's teams offer advice and services to individual, corporate and institutional customers in three core businesses:

- Retail banking in France with the Société Générale branch network, Credit du Nord and Boursorama, offering a comprehensive range of multichannel financial services on the leading edge of digital innovation;
- International retail banking, insurance and financial services to corporates with a presence in emerging economies and leading specialised businesses; and
- Corporate and investment banking, private banking, asset management and securities services, with recognised expertise, top international rankings and integrated solutions.

Société Générale is included in the main sustainability indices: DJSI (World and Europe), FTSE4Good (Global and Europe), Euronext Vigeo (World, Europe and Eurozone), ESI Excellence (Europe) from Ethibel, four of the STOXX ESG Leaders indices, and the MSCI Low Carbon Leaders Index.

## Company profile

Komerční banka is the parent company of KB Group and is a member of the Société Générale international financial group. KB ranks among the leading banking institutions in the Czech Republic, as well as in Central and Eastern Europe. It is a universal bank providing a wide range of services in retail, corporate and investment banking. Member companies of Komerční banka Group provide additional specialised financial services, such as

pension savings and building society schemes, leasing, factoring, consumer lending and insurance. These are accessible through KB's branch network, its direct banking channels, and the subsidiaries' own sales networks. The Bank also provides services in the Slovak Republic through its branch focused on serving corporate clients as well as through selected subsidiaries.

CZK billion	Loans to clients (gross loans)*		Amounts due to customers	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
<b>KB Group</b>	<b>607.4</b>	<b>595.4</b>	<b>762.0</b>	<b>699.4</b>
KB – total (including KB Slovakia)	542.6	539.1	702.1	638.4
– Individuals	242.1	231.0	245.7	224.4
– Businesses and other (including KB Slovakia)	300.5	308.1	456.4	414.0
– Small businesses	34.1	32.4	175.9	159.9
– Medium corporates and municipalities	103.4	105.6	150.5	142.2
– Top Corporates and other (including KB Slovakia)	163.0	170.1	130.0	111.9
Modrá pyramida	43.6	38.8	62.6	64.1
ESSOX (including PSA Finance)	15.5	14.8	n.a.	n.a.
Factoring KB	8.0	7.5	n.a.	n.a.
SG Equipment Finance	26.1	25.8	n.a.	n.a.
Bastion	2.8	3.1	n.a.	n.a.
Consolidation and other adjustments	(31.3)	(33.6)	(2.6)	(3.1)

\* excluding 'Other amounts due from customers'



## The Bank's identification details as of 31 December 2017

Komerční banka, a.s., entered in the Commercial Register maintained with the Municipal Court in Prague, Section B, File No. 1360

### Date of registration:

5 March 1992

### Registered office:

Prague 1, Na Příkopě 33, building identification number 969, postal code 114 07

### Identification number:

45317054

### Legal form:

Public limited company

### Business activities:

- I. The Bank shall carry on business pursuant to Act No. 21/1992 Coll., the Banking Act, as amended. The business activities of the Bank shall include:
  - a) acceptance of deposits from the public,
  - b) granting of loans,
  - c) investing in securities on the Bank's own account,
  - d) financial leasing,
  - e) making and receiving payments and administration of a clearing system,
  - f) issuing of payment instruments, such as payment cards and traveller's cheques,
  - g) provision of guarantees,
  - h) issuing of letters of credit,
  - i) provision of collection services,
  - j) provision of investment services including:
    - main investment services of reception and transmission, on behalf of investors, of orders in relation to investment instruments,
    - main investment services of execution of orders on behalf of investors in relation to investment instruments,
    - main investment services of dealing in investment instruments for the Bank's own account in relation to investment instruments,
    - main investment services of managing portfolios of investments in accordance with mandates given by investors on a discriminatory, client-by-client basis where such portfolios include one or more investment instruments,
    - main investment services of underwriting in respect of issues of investment instruments and/or the placing of such issues in relation to investment instruments,
    - ancillary services of safekeeping and administration in relation to investment instruments,
    - ancillary services of safe custody,
    - ancillary services of granting credits or loans to an investor for the purpose of allowing the investor to carry out a transaction in one or more investment instruments wherein the firm granting the credit or loan is involved in the transaction in relation to the investment instrument
    - ancillary services of advice to undertakings on capital structure, industrial strategy and related matters and

advice and service relating to mergers and the purchase of undertakings,

- ancillary services of services related to underwriting in relation to investment instruments,
  - ancillary services of investment advice concerning investment instruments in relation to investment instruments,
  - ancillary services of foreign-exchange service where these are connected with the provision of investment services;
- k) dealing on the Bank's own account or on the client's account in foreign currencies and gold,
  - l) financial brokerage,
  - m) foreign exchange operations (purchase of foreign currency),
  - n) provision of depository services,
  - o) provision of banking information,
  - p) renting of safe-deposit boxes,
  - q) issuing of mortgage bonds,
  - r) activities directly related to those mentioned in paragraphs a) – q).
- II. Furthermore, the business activities comprise activities carried out for another as long as these activities relate to the operation of the Bank and to the operation of other banks controlled by it, of saving and credit unions, investment companies, insurance and reinsurance companies, financial institutions and of businesses which provide ancillary banking services in the scope specified below:
    - a) accounting consultants activities, book-keeping, tax record keeping,
    - b) procurement of deals and services,
    - c) advisory and consulting activities, preparation of expert studies and reports,
    - d) administration and maintenance of real property,
    - e) organisation of specialised courses, training, and other educational programmes including teaching,
    - f) provision of software, advisory in information technologies, data processing, hosting and relating activities and web portals,
    - g) administration and organisational services.

### Registered capital:

CZK 19,004,926,000; of which paid up: 100%

### Method of the Company's establishment:

In accordance with the privatisation project of the state financial institution Komerční banka, with its registered office at Prague, Na Příkopě 28, approved by resolution of the Government of the Czechoslovak Federative Republic No. 1 of 9 January 1992 and No. 109 of 20 February 1992, the National Property Fund of the Czech Republic, as the sole founder, established the public limited company Komerční banka, a.s., based on the Deed of Incorporation of 3 March 1992 under Sec. 172 of the Commercial Code.

### Foreign branch:

Name: Komerční banka, a.s., pobočka zahraničnej banky  
Registered office: Bratislava, Hodžovo námestie 1A, postal code 811 06, Slovak Republic

# Report of the Board of Directors

on the Bank's and Group's business activities  
and financial position

## Vision and mission

### **Long-term mutually beneficial relationships with clients and other stakeholders**

Komerční banka is a universal bank based on a multi-channel model. KB presents to its clients a comprehensive range of financial products and services. Through unceasing innovation, the Bank endeavours to meet its customers' evolving needs while tailoring its offer to suit specific clients.

### **To create value for clients, shareholders and employees and to serve the economy**

KB focuses on continuously developing its business activities while prudently managing the related risks. Co-operation with other members of KB Group, with companies from SG Group, and with other, independent partners enables the Bank to provide highly sophisticated products and gives it a flexibility that is indispensable in a constantly changing environment. The excellent know-how and experience of the Group's employees ensure that the products portfolio is fully relevant and competitive. At the same time, Komerční banka is aware of the responsibilities stemming from its position as a leading Czech financial institution.

## Principles of corporate social responsibility

Responsibility is the basis of every partnership, and it is also Komerční banka's priority in relation to our clients, employees, shareholders and the broader society. Komerční banka's principles of corporate social responsibility (CSR) are consistent with its fundamental values, even as the Group's business strategy regards this to be a condition for long-term success.

Corporate social responsibility ensures that Komerční banka's long-term interests are being served in a responsible manner while duly considering the expectations of its major stakeholders and complying with all regulations. This responsibility is advanced in the economic, environmental and social areas, it is made an integral aspect of the entire organisation, and its observation and implementation at all levels are supported through a variety of activities.

KB's CSR activities are developed within the following organisational areas:

- Client satisfaction
- Ethics and responsible banking
- Responsible employer
- Protection of environment
- Social trends and innovations
- Sponsoring and charity

The detailed non-financial information on Komerční banka's corporate responsibility activities and results, including on the topics of environment, social and employment relations, respect for human rights and fight against corruption and bribery, is provided in the separate 2017 Non-financial report, available at [www.kb.cz/csr](http://www.kb.cz/csr). The Non-financial report includes also information on activities for protection of the environment and on employment relations that would otherwise make up part of the annual report.

### **Code of conduct**

Komerční banka recognises that only by taking an ethical approach to doing business and providing financial services can it hope to maintain and even strengthen its position in the banking sector. The Bank also acknowledges that a fundamental prerequisite to successfully developing the company consists in professional conduct and behaviour on the part of its employees, as exemplified in particular by fostering and preserving direct and open relationships with clients as well as by fortifying the mutual trust between KB and its clients. Komerční banka expects its employees to be fully aware of and committed to their obligation to act in accordance with the ethical standards set forth in its Code of Ethics – which applies to all KB employees without exception – and to endeavour always to adhere to those standards.

### **Corporate governance**

Komerční banka accepted and upholds all the principal standards of corporate governance in compliance with the Corporate Governance Code based on the OECD principles as amended in 2004 and issued by the Czech Securities Commission. The Czech wording of the Revision of the Code is available on the website of the Ministry of Finance of the Czech Republic at [www.mfcr.cz](http://www.mfcr.cz). Komerční banka's Board of Directors applies and develops the aforementioned principles of corporate governance, including the newly introduced European rules unifying corporate governance codes of best practice at the European level, and it reflects the new rules in its internal procedures and regulations.

### **Sustainable development**

Komerční banka is aware of the influence that its activities have on the surroundings wherein it operates, and it considers responsible behaviour to be important. Therefore, it adopts adequate measures which on the one hand should eliminate negative influences on the environment and on the other contribute to its protection and improvement. KB monitors the impact of its activities on the environment and identifies those areas upon which it needs to focus. Komerční banka then adopts measures directed towards effectively reducing its environmental impact.

## Major events of 2017

### January

Komerční banka opened KB Innovation Lab to facilitate innovation in the area of banking products and services. This is a dedicated space to facilitate teaming up with universities, external partners, clients, start-ups, business accelerators and fintech companies.

KB began providing its corporate clients with services within the KB Advisory Point concept. In collaboration with the renowned consultancies, KB offers company owners and managers an expert look into the operations of their companies, including suggesting specific solutions for improving their competitiveness.

The Bank extended its co-operation agreement with the Agrarian Chamber of the Czech Republic and Federation of the Food and Drink Industries of the Czech Republic. The major collaborative priorities will be to promote the development of export opportunities for Czech food and agricultural commodities while also supporting investments in agriculture and the food industry.

Komerční banka extended its co-operation agreement with the Association of Private Farming of the Czech Republic.

A new Investment Customer Relationship Management tool was introduced. The tool provides a comprehensive and sufficiently detailed view on clients and their assets. It is also used to analyse clients' investment portfolios.

### February

In a survey of students and new university graduates, Komerční banka was named Top Employer 2017 in the banking and investment category.

### March

KB concluded the sale of its building at Na Příkopě 33 in Prague, to Commerz Real. This was a part of the strategy to house KB's headquarters operations at two locations in Prague, consisting of one building on Wenceslas Square in the centre of Prague and the other in the new office complex at Stodůlky, in the western part of Prague. KB will continue to keep a branch at Na Příkopě 33 into the long-term future. Also in March, KB signed a framework agreement to acquire the company Office Center Stodůlky, which is the owner of the newly constructed office building in the modern KB office complex in Prague – Stodůlky.

Komerční banka concluded a co-operation agreement with the Czech Franchise Association.

The Bank prepared a specialised web portal for exporters and importers, where clients can find pertinent economic news and analyses, a database of potential customers and suppliers, country profiles, a calendar of industry events, and information about regulations and customs duties.

### April

On 6 April, after nearly three and a half years, the Czech National Bank discontinued its commitment to prevent the Czech crown from strengthening below 27 crowns per euro.

At the General Meeting held on 25 April, Komerční banka's shareholders approved the financial reporting for 2016 and distribution of the profit, including a dividend payment in the amount of CZK 40 per share.

The General Meeting elected Mr Laurent Goutard, Mr Petr Laube, Mr Jean-Luc André Joseph Parer, Mr Giovanni Luca Soma, Mr Petr Dvořák, Mr Pavel Jelínek and Ms Miroslava Šmídová as members of the Supervisory Board. The General Meeting also elected Mr Giovanni Luca Soma and Mr Petr Laube as members of the Audit Committee.

### May

Joining forces with the Association of Small and Medium-Sized Enterprises, KB kicked off the fifth year of the Start up! grant programme for young and beginning entrepreneurs. Under the programme, the Bank provides beginning entrepreneurs with financing, expert advice, as well as financial, legal and marketing support.

Komerční banka introduced the KB Flexible Private Asset Management Fund, which is something new in the investments area. This service determines the most favourable investments mix for the client, without limitation as to the eligible classes of investment assets.

KB launched a new business application to help its relationship managers simplify customer relationship management. The application comprehensively embraces client management needs, including providing a prompt overview of information about clients and new sales opportunities.

### June

KB was awarded second place in the Sodexo Employer of the Year 2017 competition in the category for companies with more than 5,000 employees. In the Prague Region, KB was named Employer of the Year 2017 in the same category.

In co-operation with the Warner Bros. entertainment company, the Bank issued a unique edition of payment cards featuring popular superheroes embodying justice and the struggle for good. In the first wave of new KB comics cards, it was possible to choose between Wonder Woman, Superman and Batman.

Société Générale Equipment Finance (SGEF) joined the Expansion programme prepared by the Ministry of Industry and Trade of the Czech Republic in co-operation with the Bohemian–Moravian Guarantee and Development Bank. The programme's main goal is to facilitate access to finance for the business projects of start-ups and emerging small and medium-sized companies. Under the programme, it is possible to obtain as much as CZK 45 million with a zero rate of interest.

### July

Komerční banka launched KB Innovation Point, a new website on innovative projects. In a single place, it is possible to find concrete case studies from various areas, such as energy savings, environmental protection, transport and others.

## August

Mr Jan Juchelka became the new Chairman of the Board of Directors and CEO of Komerční banka with effect from 3 August 2017. In the past five years, Mr Juchelka had worked at the headquarters of Société Générale in the area of corporate and investment banking. He succeeded Albert Le Dirac'h whose tenure expired on 2 August 2017.

The Bank Board of the CNB decided on 4 August to raise its monetary policy rates for the first time since February 2008. The two-week repo rate was increased by 20 basis points to 0.25%.

In August, KB introduced a new range of current account packages corresponding to the varying requirements of diverse clients. The entry-level MůjÚčet (MyAccout) provides at no fee a current account accessible on-line or at the branches, a contactless payment card, withdrawals from KB ATMs, and receipt of incoming payments. MůjÚčet Plus is for clients who want to have included also all electronic transactions and withdrawals even from ATMs of other banks. Finally, MůjÚčet Gold is for clients who can appreciate such additional features as worldwide ATM withdrawals, travel insurance covering the whole family, assistance services and much more.

A fingerprint took control of KB's mobile banking. From August, clients have been able to authorise by a simple touch of their finger any transaction in the Mobilní banka and Mobilní banka Business applications from Komerční banka.

Coverage by the Trusteer security solution from IBM was extended to mobile devices running on the iOS operating system.

The new Infinite credit card became the most prestigious card that KB offers. Perks associated with the card include premium travel insurance for the whole family, global legal assistance, broad concierge and travel assistance services, secure internet connection, and entry to airport VIP lounges. The card is directed mainly to KB's highest-level clients who are frequent travellers.

## September

The Supervisory Board of Komerční banka elected Mr Didier Colin as a new member of the Board of Directors, with effect from 1 October 2017. It re-elected Mr Peter Palečka as a member of the Board of Directors, with effect from 9 October 2017.

## October

Komerční banka was recognised by the prestigious magazine The Banker from The Financial Times group for offering the best private banking services in the Czech Republic. The evaluators appreciated especially the dynamic growth in the number of clients, volume of new assets, leading position in investment innovations, range of expertise, and long-term stability of the business teams.

Under the name KB Port Brno, Komerční banka opened its first branch dedicated to students in the Moravian metropolis. There, young people will find financial services offered in a language they understand, within a relaxed environment, and using digital technologies.

SGEF joined a new system for uncovering duplicitous financing of trucks, machinery, and equipment. An extended version of the CheckLeasePro tool was developed by Cebia in co-operation with the Czech Leasing and Financial Association.

From the start of October, Komerční banka's clients have been able to use chat, a new service available at KB's website. Via chat, they can easily and quickly obtain information not only on banking products offered but also on procedures to follow when they lose a card. They can arrange a meeting at a branch, get help when entering a payment, and obtain other services.

Entering into a framework agreement on co-operation for 2018, Komerční banka and the Association of Small and Medium-Sized Enterprises and Crafts of the Czech Republic extended their long-term partnership in supporting Czech entrepreneurs and their competitiveness on European and world markets.

The Bank accepted a subordinated loan of EUR 100 million from Société Générale. As Tier 2 capital, the loan reinforced the Bank's regulatory capital.

On the basis of a framework agreement executed in March, Komerční banka acquired 100% ownership in Office Center Stodůlky from FINEP HOLDING, SE and Real 12 a.s.

## December

Komerční banka launched quick and easy mobile phone payments using Google's Android Pay. Individuals may activate Android Pay directly in their Mobilní banka application, and companies may do so in Mobilní banka Business. Activation readies the mobile phone for contactless payments in the Czech Republic and abroad.

The Bank introduced a new "Chytré inkaso" (Clever direct debit) product in its internet banking which simplifies the setting up of a direct debit. If the client has not pre-authorised a direct debit, KB will pre-fill it according to the information received from the debit initiator. The client, then, just checks and authorises the prepared debit instructions.

## Year 2018

With effect from 1 January 2018, the company PSA FINANCE ČESKÁ REPUBLIKA s.r.o. has merged with its sole owner, ESSOX s.r.o. The entity will continue to operate under the name ESSOX s.r.o.

As of 1 January 2018, the company PSA FINANCE SLOVAKIA, s.r.o. changed its name to ESSOX FINANCE, s.r.o., with its registered address at Karadžičova 16, 821 08 Bratislava, Slovak Republic. ESSOX FINANCE, s.r.o. is fully owned by ESSOX s.r.o.

In February 2018, KB exercised the right to sell a 19% share in Cataps to Worldline SA/NV. Upon conclusion of the transaction, the Bank holds a remaining interest of 1% in Cataps. The Bank and Worldline will continue to work closely together within the KB SmartPay alliance.



## Economic and monetary environment in 2017<sup>1</sup>

The Czech economy accelerated significantly in 2017 and reached the second highest dynamics seen in the past ten years. Domestic demand remained the main growth driver. In addition to household consumption, and particularly in the second quarter, fixed investments demonstrated recovery. Despite rising imports, foreign trade also made a positive contribution to economic growth. Due to strong domestic demand, wage growth and a new law requiring electronic recording of cash sales of goods and services, inflation climbed to 2%. Inflation was accelerating through the year, peaking at 2.9% in October, which was just below the upper limit of the CNB's tolerance band. The return of inflation to its target in 2017 allowed the central bank to stop using non-standard monetary policy instruments. The exchange rate commitment was discontinued, and the CNB also began raising interest rates. The rising rates contributed to strong appreciation of the crown vis-à-vis the euro after the exchange rate commitment was eliminated.

The world economy experienced a very good year in 2017. This was reflected in the economic dynamics of the Czech Republic's main trading partners, and the domestic economy benefited from this recovery. Exports grew on average by 5.6% year on year<sup>2</sup>, as exporters were successful despite the strengthening Czech crown. Nevertheless, the foreign trade balance as measured by the national methodology recorded a deterioration from CZK 163.7 billion in 2016 to CZK 152.6 billion last year. There was a significant increase in the import dynamics, and their growth last year reached 6.5%. The Czech Republic confirmed its strong position on the European market, and 83.9% of total exports went to EU countries. The most important trading partner is Germany, the destination for 32.3% of goods exported from the Czech Republic. The export dynamics were driven mainly by car exports, but machinery exports, too, made a significant contribution. Despite the poorer foreign trade balance, the current account balance reached 1.3% of GDP<sup>3</sup> and recorded its best result in history. The Czech Republic's external position thus remained very strong.

Despite the poorer nominal foreign trade balance, the positive trade balance in real terms under the national methodology increased and contributed 1 percentage point to the GDP growth. Domestic consumption remains the main driver of economic growth. The situation among households was improving during the past year. The unemployment rate was declining and reached a low of 2.3% at the end of the year, according to the CZSO survey. Tightness in the labour force caused wage inflation to accelerate in 2017. Salaries increased by 6.6%, demonstrating the fastest dynamics seen since 2008. The labour force insufficiency was reflected also in investment activity, as businesses looked for ways to increase their production without having to recruit new workers. The solution is to boost productivity by investing in automation and overall modernisation of production. It is no wonder, therefore, that private investments directed mainly into machinery and equipment played a major role. Overall, gross

fixed capital formation increased by 5.7%. The public sector did not participate in this growth. Infrastructure development did not accelerate significantly during 2017, and stagnation was seen also in the construction sector. Although building construction began to gradually recover from the crisis due to the great demand for residential housing, civil engineering is drowning in its difficulties.

Average consumer price inflation climbed to 2.5% last year. This reflected to a large extent a strong rise in food prices, which reached an average 5.1%. Early in the year, frosts destroyed a large part of the fruit and vegetable harvest. During the year butter became a symbol of rising prices as demand for milk fat grew globally, and by the end of the year eggs took the baton in the relay of climbing food prices. Fuel prices also contributed to the price growth. Mounting oil prices on world markets were reflected at domestic petrol stations, even though the rise in fuel prices was somewhat mitigated by the Czech crown's appreciation against the US dollar. Core prices also contributed significantly to overall inflation. They rose by 2.3% on average according to KB's calculations, which constitutes the fastest growth in more than a decade. Their dynamics were driven by higher wages that stimulated domestic demand, but higher salaries were also a cost factor for domestic businesses and retailers. The only major item that did not support inflation was that of regulated prices. In particular, energy prices were dampened by low energy prices on world markets at the end of 2016.

The return of inflation to the central bank's target allowed the CNB to end its use of non-standard monetary policy instruments. In April 2017, after more than three years, the exchange rate commitment was terminated. Already in August, the central bank raised its repo rate for the first time in ten years. It was the first central bank in the EU to begin normalising monetary policy. The economy's very good development led the CNB to raise rates again in 2017's final quarter. The key repo rate ended the year at 0.5%.

Through the first quarter of 2017, the CNB had continued its exchange rate commitment such that foreign exchange interventions prevented the crown from strengthening beyond the CZK/EUR mark of 27. During the first months of the year, investors' pressure on the CNB was mounting and the central bank had to buy euro in massive amounts. At an extraordinary monetary policy session on 6 April, it finally discontinued its exchange rate commitment that had been in existence three and a half years. The Czech currency's return to a floating rate regime was relatively smooth. The crown strengthened gradually through the rest of the year, thereby reflecting the Czech economy's strong fundamentals and, above all, the monetary policy of the CNB, which had begun hiking interest rates. Expanding interest rate differentials – including those on the forward market – attracted new investors to the Czech market. The Czech crown gained almost 6% in a year-on-year comparison, thereby becoming the world's second most successful currency purely in terms of exchange rate development.

<sup>1</sup> Source of primary data on the Czech economy: Czech Statistical Office, Table Key macroeconomic indicators 01. 02. 2018 (code: 350004-18), available at [https://www.czso.cz/csu/czso/hmu\\_ts](https://www.czso.cz/csu/czso/hmu_ts).

<sup>2</sup> Source: Czech Statistical Office, foreign trade statistics, [https://www.czso.cz/csu/czso/vzonu\\_ts](https://www.czso.cz/csu/czso/vzonu_ts)

<sup>3</sup> KB estimate

The yields<sup>1</sup> on Czech bonds were strongly influenced by foreign demand in the first half of 2017. This stemmed from the existence of the exchange rate commitment and currency interventions (the short end of the yield curve dropped to –1% in January). A second major factor was the inclusion of Czech government bonds into JPMorgan's Government Bond Index–Emerging Markets (GBI-EM), as global bond funds tracking this index began adding Czech bonds to their portfolios. In the second half of the year, however, government bonds were hit by a selloff, causing their yields to shoot upwards. The effect of institutional investors' demand in relation to the GBI-EM index had been exhausted, and in the end, at least in part, the market settled down after CNB interventions. The short end of the yield curve began to reflect the CNB's rising interest rates and moved back into positive territory. The long end of the yield curve climbed due to the central bank's policy, rising inflation and a growing production gap. The yield on the 10-year bond was approaching 2% at the end of the year.

## Fulfilment of targets set for 2017

The Group result at the level of total revenues and operating costs were in accordance with the targets set for 2017. The costs of risk were even better than planned, but the level of 2017 is not sustainable. The development of deposits attested to the high level of clients' trust in Komerční banka. The lending performance was satisfactory in retail segments. Financing of corporations was affected by pricing distortions related to currency interventions, which led corporations to prefer euro as a funding currency to the Czech crown.

## Main assumptions for 2018

In its baseline scenario, Komerční banka anticipates that in 2018 the Czech economy will extend its solid performance from 2017, albeit while slowing its growth just slightly to 3.8%. The external demand for Czech products will remain strong, investment activity is likely to grow further, and domestic consumption should remain the country's main growth driver.

Industrial production should sustain its growth rate from 2017 at around 6%. This will be supported by the external as well as local environment. Although the demand for cars in Europe will grow at a slower tempo, the market share of Czech producers in Europe will probably rise further. Other industrial sectors should benefit from a faster pace of consumption and investment activity in the Czech Republic as well as abroad. The growth in private investments will be driven by tightness in the labour market, strong wage pressure and a strengthening crown, as companies will need to improve productivity in order to maintain their competitiveness.

The construction sector should accelerate after expanding only modestly in 2017. Building construction has seen strong demand, but there remain administrative obstacles making construction difficult, particularly in large cities. A new construction law that came into force on 1 January should somewhat simplify the preparation process for construction. Although civil engineering was weak in 2017, it is set to strengthen because the public

administration will be pushed to tap into a significant part of available EU funds in 2018. A risk exists, however, that the government's ability to proceed with infrastructure projects may again disappoint.

Household consumption will be strong because of low unemployment and rapid growth in wages. Moreover, the central government budget anticipates a significant increase in spending on public wages and social benefits. The Czech labour market has probably reached its limits already, and no further decrease in unemployment should be expected. The confidence of employees and labour unions is high, and nominal wages will probably grow by more than 6% in 2018. That means the growth in real wages will accelerate to around 4%.

The strong wage pressure will push up core inflation in the Czech Republic to around 2%. Robust demand also limits the willingness of retailers to reduce prices to reflect lower import prices due to the stronger crown. Food price inflation should ease after its steep climb in 2017, which had been affected by a mediocre harvest. Fuel prices will be driven mainly by global factors, but their rise is expected to decelerate from the rapid pace of the previous year. The headline consumer price inflation should thus hover around the Czech National Bank's 2% monetary policy target.

The CNB looks set to continue hiking interest rates. The markets are anticipating during 2018 between two and four increases by 25 basis points each in the main two-week repo rate. Domestic conditions suggest that monetary policy normalisation should continue at a quicker pace. On the other hand, the external low interest rate environment is worrisome for some Bank Board members. They are concerned that the widening interest rate differential might attract more speculative capital and cause rapid CZK appreciation and accompanying disinflationary effects.

The Czech economy's real convergence with the European economy and improving interest rate differential will continue to drive appreciation of the Czech currency. The Czech economy's higher GDP growth than that of the euro area means the crown's long-term equilibrium exchange rate will tend to appreciate. Ultimately, however, the strengthening of the currency may not be as marked as anticipated. This could be the case, for example, if the CNB does not deliver four rate hikes this year. The technically overbought position in the Czech crown also raises the risk of a sharp drop in the event of a major negative shock.

Czech government bond yields are expected to rise in 2018, with higher issuance by the Ministry of Finance, CNB rate hikes, strong fundamentals, and lower demand by foreign investors due to the normalisation in implied yields. Also, crown-denominated interest rate swap rates should increase, mainly due to the CNB's expected tightening. The short end of the market yield curve should reflect the expected CNB hikes more intensively and thus rise even faster.

Growth in bank lending should slow in 2018. Following the rapid growth in mortgage lending during 2017, real estate lending is set to be moderate in 2018. There had been significant frontloading of mortgages in the past year, as the CNB had introduced new recommendations to banks and the central bank's hikes had begun nudging up market interest rates. Nevertheless, the improvements in household purchasing power should still result in a climbing mortgage lending market in 2018,

<sup>1</sup> Source of data on yields on the financial markets: Bloomberg terminal

albeit at a slower pace. Robust confidence among households should lead to solid growth in consumer lending. In corporate segments, lending in foreign currencies (predominantly euro) will not rise much after a spike in 2017 linked to expectations for a strengthening crown. The more traditional CZK-denominated loans should pick up due to the accelerating investment activity and lower profit margins on the back of rising wages (recently high profit margins had been limiting demand for working capital financing).

Deposits growth is set to slow in 2018 due to the removal of the FX floor and the resulting stagnation (or even a minor decline) in deposits from non-bank financial institutions. Deposit balances of individuals and corporations are expected to continue rising, albeit at a slightly slower tempo due to the declining savings rate and profit margins.

Competition on the Czech banking market, which is characterised by excess liquidity, will remain intense. The challenge from firms outside the traditional financial sector will intensify even further with the opening of access to client accounts brought by the EU's revised Payment Services Directive.

## Strategic priorities

Komerční banka is developing a universal banking model focused on meeting the financial needs of its clients within long-term, mutually beneficial relationships. This client-centred model allows the Bank to be effective in understanding clients' needs and expectations, to maintain proximity to its clients at their points of need and, thereby, to offer relevant and valuable solutions that maximise clients' satisfaction.

KB is proud and keen to confirm clients' perception of Komerční banka as a reliable, strong and responsible bank by upholding high ethical standards; constantly reinforcing the security and reliability of its services, banking systems and distribution channels; and contributing to society in numerous ways, including maintaining an important part of the Czech financial system, employing thousands of people and contributing to charity and volunteer efforts.

The Group aims to participate in the growth of the Czech Republic's banking market and maintain a firm position in Slovakia. It has identified parts of the market where it aims to continue boosting its share. This includes lending to consumers and small businesses. KB intends to develop its business activities on a sustainable and profitable basis that is bolstered by clients' recognition of the quality, value and convenience of its services.

In order to be able to support its clients with a positive, simple, smooth and reliable digital user experience, KB is investing to uphold its leadership in adopting digital technologies. Activities in 2018 will focus on further extending accessibility of financial products via digital – and especially mobile – channels. To assure a positive experience for clients, it is essential that the availability, reliability and security of internet and mobile banking be strengthened continuously.

KB's competitiveness is to a significant extent underpinned by its effective operating model. In 2018, the Group will implement several initiatives to advance that model by improving sales productivity, effectiveness of internal processes, and cost efficiency. The changes will intensify the Group's adaptation – as well as add to its long-term capacity for future adaptation – to the transforming landscape of financial services, the main challenges of which stem from clients' shifting preferences, disruptive competition, complex regulation and rapid technological change. Crucial aspects of building this capacity include simplifying our work overall while improving our agility in doing the work.

A key requisite for long-term success is the ability to attract and retain talent. KB thus pursues transparent employment policies, supports empowerment of its employees and offers competitive employment conditions. The Group is developing programmes directed to enhancing professional skills and improving employee motivation. To remain competitive in the changing environment, KB's people must embrace a mind-set emphasising simplicity and agility. The corporate culture must reflect Komerční banka's core values of team spirit, innovation, commitment and responsibility.

KB's risk management is pursuing a balanced approach to all types of risks assumed. It aims to support development of the Group's business activities, and that includes sustainably growing its lending activities while reinforcing the Group's market positions. The objective is to ensure profitable lending and market activities across the business cycle while at the same time preserving a sound balance sheet.

A high-level objective is to properly allocate the scarce resources of capital, costs and efforts so as to fortify Komerční banka's capacity to compete successfully and deliver to the shareholders sustainable and strong return on equity. Furthermore, KB is fully committed to meeting all its regulatory obligations.

## Outlook for the Group's performance in 2018

KB's fundamental target is to reinforce clients' satisfaction with the Group's services. This should be reflected in the Bank's serving a stable or slightly rising number of clients and expanding use of the Group's various products by these clients.

Management expects that the annual growth rate of the Group's loan portfolio during 2018 will be similar to, or even slightly faster than, that seen in the previous year. A pick-up in investment activity and normalisation on the derivatives markets should support a recovery in business lending, even though the market, characterised as it is by excess liquidity, will remain very competitive. Thanks to favourable economic conditions and a high level of household confidence, consumer lending and loans to small businesses also should accelerate. On the other hand, lending to individuals for housing will probably slow. That would be in line with the market trend, due to the effects of higher real estate prices and interest rates on the affordability of housing and to limitations established by the CNB.

The Group also expects overall deposits volume to expand more slowly than in 2017. This would mark a return to a normal trend after huge deposits inflows in early 2017 that had been triggered by expectations of the crown's strengthening. Deposits from individuals should grow relatively faster, reflecting a supportive labour market and an increase in social transfer payments from the state. In the situation of climbing interest rates, certain volumes will be switching from current accounts to term deposits, with the latter category thus becoming the main driver of overall growth. Adding to non-bank assets under management for its clients will remain a priority for the Group, and the pace of their growth should be similar to that seen in the previous year.

The increasing numbers of clients and their transactions, growth in the volumes of loans, deposits and other clients' assets, as well as gradually rising market interest rates should enable slight improvement in KB Group's interest and fee income. That is despite pressure on unit prices brought by intense competition. On the other hand, gains from financial operations will probably diminish to a more normal level in comparison with 2017, a year which saw a spike in clients' financial activity that had been triggered by the CNB's discontinuation of currency interventions.

KB Group will continue to manage operating expenditures in a disciplined and rigorous manner, and these costs are expected to rise only at a pace similar to that of inflation. Personnel expenses will be the main driver of overall cost growth due to the need to retain productive and talented employees and to remain competitive on the tight labour market. The rise in general administrative expenses, including regulatory funds, will be capped by the level of inflation. Recurring depreciation and amortisation will increase somewhat faster, reflecting that the new head office building will come into use and so will software applications within KB's development strategy. On a reported basis, there will be a visible jump in this line due to the net positive (i.e. lowering the reported cost) effect in the 2017 base from the sale and revaluation of a part of the portfolio of headquarters buildings.

KB expects that the quality of the assets will remain excellent. The cost of risk achieved in 2017 was exceptionally low. This is expected to rise in 2018, mainly because the potential for further recoveries from the defaulted portfolio has diminished. Inasmuch as the economic environment will still be favourable, the total cost of risk in 2018 will probably be less than the average for the business cycle as a whole. Future provisioning will reflect growth in the overall lending volume and changes in such macroeconomic factors as the levels of interest rates, economic expansion, and unemployment. The impact from introduction of the IFRS 9 accounting standard will not be significant.

In the conditions envisaged at the start of 2018, management expects the Bank's operations will generate sufficient profit during the year to cover the Group's capital needs ensuing from its growing volume of assets as well as to pay dividends.

## Main challenges and risks for the Bank and Group in 2018

Komerční banka Group is a complex undertaking which is naturally subject to a whole array of risks. These range from economic, competitive, regulatory and reputational risks to operational, capacity, counterparty, legal, market and credit risks. It may also be impacted by human error or fraud, insufficiency of skills and experience, or flawed management decisions. Not least, it may incur losses resulting from unforeseen or catastrophic events.

The Group's business model has proven itself robust. Komerční banka's capital and liquidity include adequate buffers to absorb unexpected adverse market developments. Credit-granting standards have been calibrated to assure the Bank's satisfactory performance even in the declining phase of the business cycle. KB's hedging policy mitigates the short-term impacts of interest rate fluctuations. Its funding is assured due to its broad and stable base of client deposits. Placements of free liquidity are confined by strict limits, and these are directed mostly towards operations with the Czech National Bank and towards government bonds. KB's risk management strategy and techniques are further elaborated in the respective chapter of this annual report.

Reflecting Komerční banka's systemic importance within the Czech banking market, its performance is closely linked with that of the Czech economy and, to a lesser extent, the Slovak economy. Both are open economies that are fully integrated into the EU's internal market. Should the Czech economy develop more poorly than expected as of the start of 2018, KB's results would be affected negatively. Slower growth in the economy would lead to decelerating expansion in business volumes, stagnation or even modest decline in recurring revenues, and a rise in risk costs. Average risk weights of assets would increase and that could bring a slight weakening in capital adequacy ratios. The Group's operations should remain profitable even in an alternative negative scenario of economic recession.

The outlook for the Czech economy remains solid. The main sources of economic uncertainty for 2018 can be identified to include volatility in the crown's exchange rate, as there continues to be excessive liquidity in the financial system. The closing of positions by foreign investors might trigger sharp crown weakening and a surge in inflation. On the other hand, wide interest rate differentials might attract more investors and the crown could strengthen sharply. That would curb the country's competitiveness and impede the interest rate hiking cycle. The recent drop in core inflation is a warning that the historically observed inverse relationship between unemployment and inflation has weakened, as suggested by recent developments in many European countries. Price growth could thus be slower than expected, and that may impact the pace of interest rates normalisation.



An economic slowdown could be caused by a lack of available labour force if businesses do not increase their productivity and thereby maintain their international competitiveness. Weaker demand for cars in Europe would deliver a significant blow to Czech producers in the automotive industry, which is one of the main drivers of the currently booming economy. There is also a risk that the government may not be able to utilise sufficiently the funds available to it from the European Union and which (given the n+3 rule) must be drawn by the end of 2018. This would lead to investment growth slower than assumed in the baseline, and that would have negative implications for the rise in lending in the business segments.

Potential (direct or indirect) participation of extremist parties in the government could lead to heightened tensions in intra-EU discussions and negotiations and, in the medium-term horizon, to a risk of calling a referendum on the Czech Republic's membership in the European Union. Such referendum could easily result in a decision to leave the EU, which would have catastrophic economic, social and political consequences for the country, as it is deeply integrated into European supply chains, institutional framework and political traditions.

The United Kingdom will exit from the European Union in March 2019. At the time of publishing this annual report, the negotiations on the future relationships between the UK and EU have not been concluded. There is a risk that mutual trade may be disrupted and that EU funds available for the Czech Republic may decrease as a result of the UK's departure. The UK is the Czech Republic's fourth largest trading partner, with a 5% share of total Czech exports and 66% share in the Czech Republic's overall trading surplus.<sup>1</sup>

Net interest income is the most important source of KB's revenues. The Bank has in place a long-term hedging policy for interest rate risk that has proven effective. Nevertheless, a potential decline in market interest rates would affect KB's interest income negatively. Also, a radicalisation of competition, whether initiated by banks or financial companies or by the less-regulated, on-line providers of financial services (the so-called fintec sector), would negatively impact the Group's revenues and potential growth. That would occur even though KB's very sound market position provides it defence against risks associated with competition on the Czech financial market.

The Group has been able to manage its operating expenditures effectively vis-à-vis its revenues development. The current pressure on wages prevailing in the Czech economy due to a scarcity of available labour means that personnel expenses will continue to be the main driver of overall cost growth also in KB. Unit labour costs are an important determinant in assessing the profitability and sustainability of any of the Bank's individual functions and branches. The management will continue to adjust the Group's operating model to assure its long-term development and success.

## KB Group clients and their service

### Developments in the client portfolio and distribution networks

As of 31 December 2017, KB Group was serving 2.4 million clients on a consolidated basis. Standalone KB recorded 1,664,000 clients (+0.6% year on year), of which 1,406,000 were individuals. The remaining 258,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 488,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 532,000. ESSOX's services were being used by 197,000 active clients, and PSA Finance was providing its services to almost 18,000 clients in the Czech Republic and Slovakia.

Komerční banka's clients had at their disposal 387 banking branches (including one branch for corporate clients in Slovakia), 764 ATMs (of which 197 were deposit-taking ATMs), plus full-featured direct banking channels supported by two call centres. The number of clients using at least one direct banking channel (such as internet or telephone banking) reached 1,422,000 by the end of December 2017 and corresponds to 85.4% of all clients. Mobile banking was itself being used by more than 436,000 of KB's clients. Customers held 1,583,000 active payment cards, of which 184,000 were credit cards. The number of active credit cards issued by ESSOX came to 110,000. Modrá pyramida's customers had at their disposal 216 points of sale and approximately 1,000 advisors. SG Equipment Finance (SGEF) was providing its leasing services via nine branches (two of which are in Slovakia), as well as through KB's network.

### Business model

Komerční banka's business model is founded upon building long-term relationships with customers. KB Group perceives its competitive advantage on the banking market as consisting in the value of partnerships with clients, the ability of its banking advisors to provide high-quality advisory, a wide range of relevant and advantageous financial products, and proximity to clients via the branch network and advanced, secure direct banking.

KB is a universal bank with a multi-channel distribution model. For each segment, the Bank establishes a service model and access channels enabling clients to use digital solutions wherever it is important for them to do so. Digitalisation of the environment and related changes in client behaviour are also reflected in the way the branch network operates. This primarily concerns the long-term trend of shifting transaction and simple service activities plus the sale of selected products to direct channels, especially to mobile banking. At the same time, the branch network continues to be a key channel for advisory, as well as for sales and service regarding such more complex products as mortgages and investments. Branches have and will continue to have an important role in financial advisory provided on the basis of client knowledge and banking advisors' expertise. They also continue to play a very crucial role in cash services.

<sup>1</sup> Source: Czech Statistical Office, [www.czso.cz](http://www.czso.cz), Table 4 External trade in goods by territorial structure (national concept) 05. 02. 2018 (code: 242002-17)

The comprehensive branch reconstruction project continued during 2017 so that branches correspond better to the clients' changing needs. Emphasis is given to the clients' comfort and privacy in obtaining financial advisory. Thirty-one branches received the new design in 2017, bringing to 95 the total number of branches the Bank has reconstructed in the new concept. In 2017, the role of deposit ATMs was further intensified as compared to that of standard cash desks at branches. Most large branches are now equipped with deposit ATMs. The Bank expects to continue extending the availability of deposit ATMs also in 2018.

Digital banking is an integral part of the multi-channel distribution model. Due to clients' ever increasing preference for mobile banking, this has become a priority focus for KB. The Bank aims to maintain its leadership in mobile banking. Payments dominate among those services used via digital banking. Digital banking clients are active on-line also in managing their accounts and payment cards and in purchasing such selected products as consumer loans, credit cards and mutual funds. KB further confirmed its leading position in mobile payments by being one of the first banks in the Czech Republic to offer payment services through the Android Pay application. It was the first bank in Europe, meanwhile, enabling clients to access their favourite banking features within the Android operating system using Android shortcuts. Clients can administer their cards within their mobile devices, including to lock a card, set limits, or allow internet payments. The Bank places great emphasis on the security of its services, and those clients using KB's mobile banking on the iOS and Android platforms have no-cost access to a license for Trusteer Rapport security software from IBM. One of KB's newest innovations enables people visiting [www.kb.cz](http://www.kb.cz) to obtain assistance from expert advisors via chat.

This network is further complemented by the subsidiaries' distribution capacities (especially those of Modrá pyramida) and, in the cases of selected products, also by the business partners' networks. Services and products of other KB Group companies are available within their own distribution networks, in the KB branch network, and potentially through the business partners.

Komerční banka adheres strictly to regulatory requirements in all areas of its activities, and it is developing the "know your client" concept, primarily through its banking advisors. Each client has his or her own banking advisor responsible for an assigned portfolio of clients and for developing the relationships with them. KB perceives knowing the client and the client's needs to be an integral part of the business relationship with the customers and a process reflecting the respect, responsibility and trust the Bank has in its clients. Knowledge of clients also provides a basis for the banking advisors to offer appropriate advisory and services corresponding to clients' actual needs. In this sense, the concept is a purely business activity directly influencing the customer experience, and especially at the beginning of the business relationship. Komerční banka is dedicating increased attention to training employees in this area and to continuously updating business processes so that they adequately serve to maximise business efficiency and ensure compliance with evolving regulatory demands.

The fundamental objectives in servicing clients are to ensure a long-term personal approach to each client, provide an offer of key products corresponding to the customer's actual needs, satisfy the clients' distinct needs, and provide individual financial advisory. Komerční banka is developing a system for detailed segmentation of customer relationships. The highest-level segments in the Bank are the following:

- Individuals,
- Small Businesses (the indicative criterion being annual turnover up to CZK 60 million),
- Corporates and Municipalities (annual turnover up to CZK 1.5 billion), and
- Top Corporations (annual turnover greater than CZK 1.5 billion).

A set of sub-segments within these segments is elaborated.

## Indicators of business performance

Total gross volume of loans to clients rose by 1.8% year on year to CZK 606.1 billion<sup>1</sup>. In lending to individuals, the overall volume of housing loans<sup>2</sup> grew by 6.5% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 4.7% to CZK 217.7 billion. Modrá pyramida reported growth of its portfolio by 12.4% to CZK 43.6 billion. The volume of KB Group's consumer lending (provided by the Bank, ESSOX and PSA Finance in the Czech Republic and Slovakia) was up by 6.5% to CZK 37.5 billion.

The total volume of loans provided by KB Group to businesses declined by 2.3% year on year to CZK 304.6 billion. This result of business lending was influenced by the strengthening of the Czech currency<sup>3</sup>, increased issuance of bonds by corporations, lasting effects of the currency interventions and intense competition on the market with excess of liquidity. Lending to small businesses grew by 5.3% to CZK 34.1 billion. The overall volume of credit granted by KB to medium-sized and large corporate clients in the Czech Republic and Slovakia (inclusive of factor finance outstanding at Factoring KB and business lending by PSA Finance), at CZK 244.4 billion, was lower by 3.6%. This drop was caused by the extraordinary situation on the market in 2017, as described above. At CZK 26.1 billion, the total credit and leasing amounts outstanding at SGEF were up by 1.2% year over year.

The overall volume of client deposits within KB Group climbed by 8.9% year on year to CZK 756.0 billion<sup>4</sup>. Deposits at Komerční banka from individual clients grew by 9.5% from the year earlier to CZK 245.7 billion. The deposit book at Modrá pyramida contracted by 2.2% to CZK 62.6 billion due to maturing old contracts, but sales of new saving contracts went up significantly. Total deposits from corporations and other businesses climbed by 9.6% to CZK 432.3 billion.

<sup>1</sup>Excluding Other amounts due from customers and volatile reverse repo operations with clients. The total gross volume under 'Loans and advances to customers' was up 2.0% year on year, at CZK 607.4 billion.

<sup>2</sup>Housing loans: mortgages to individuals provided by KB + loans to clients provided by Modrá pyramida.

<sup>3</sup>Appreciation of the koruna reduced the CZK value of loans granted in euro (by 5.5% year on year). Euro-denominated loans represent approximately one third of KB Group's business loan portfolio.

<sup>4</sup>Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' climbed by 9.0% to CZK 762.0 billion.

Client assets managed by KB Penzijní společnost were higher by 8.8%, at CZK 53.3 billion. Technical reserves in life insurance at Komerční pojišťovna expanded by 1.7% to CZK 47.8 billion. The volumes in mutual funds held by KB Group clients grew by 12.5% to CZK 62.9 billion.

### Selected business indicators

Distribution network	31 December 2017	31 December 2016
KB retail branches	387	392
KB business centres	10	10
KB corporate divisions	5	5
MPSS points of sale	216	216
ATMs	764	768
out of which: deposit taking ATMs	238	195

Number of clients	31 December 2017	31 December 2016
Komerční banka	1,664,000	1,654,000
– individual clients	1,406,000	1,398,000
– using at least one direct banking channel	1,422,000	1,387,000
Modrá pyramida	488,000	491,000
KB Penzijní společnost	532,000	534,000
ESSOX (incl. PSA Finance)	215,000	215,000

Direct channels	31 December 2017	31 December 2016
Active direct banking products	2,284,000	2,120,000
KB Payment cards – active	1,583,000	1,595,000
– debit cards	1,399,000	1,401,000
– credit cards	184,000	194,000
ESSOX credit cards – active	110,000	113,000

Loans to clients – gross loans (CZK billion) <sup>1</sup>	31 December 2017	31 December 2016
<b>KB Group</b>	<b>607.4</b>	<b>595.4</b>
KB – total loan portfolio	542.6	539.1
– Loans to individuals	242.1	231.0
– Volume of KB's mortgages	217.7	207.8
– Volume of KB's consumer and other loans	24.4	23.2
– Loans to small businesses	34.1	32.4
– Loans to medium corporates and municipalities	103.4	105.6
– Loans to top corporates and other loans <sup>2</sup>	163.0	170.1
Modrá pyramida – total loan portfolio	43.6	38.8
ESSOX – total loan portfolio (including PSA Finance)	15.5	14.8
Factoring KB – total loan portfolio	8.0	7.5
SG Equipment Finance – total loan portfolio	26.1	25.8
Bastion - total loan portfolio	2.8	3.1
Consolidation and other adjustments	(31.3)	(33.6)

Amounts due to customers and assets under management (CZK billion)	31 December 2017	31 December 2016
<b>KB Group deposits</b>	<b>762.0</b>	<b>699.4</b>
KB deposits	702.1	638.4
– individuals	245.7	224.4
– small business	175.9	159.9
– MEM corporates	150.5	142.2
– top corporates and other deposits <sup>3</sup>	130.0	111.9
Modrá pyramida – building savings	62.6	64.1
Consolidation and other adjustments	(2.6)	(3.1)
<b>Non-bank assets under management</b>	<b>163.9</b>	<b>151.8</b>
Assets under management in mutual funds <sup>4</sup>	62.9	55.9
Clients' assets managed by KB Penzijní společnost	53.3	48.9
KP life insurance technical reserves <sup>5</sup>	47.8	47.0

<sup>1</sup> Excluding 'Other amounts due from customers'

<sup>2</sup> Including loans provided by KB Slovakia

<sup>3</sup> Including deposits in KB Slovakia, other payables to customers and repo transactions

<sup>4</sup> Assets of KB Group clients managed by third party asset managers

<sup>5</sup> Komerční pojišťovna is consolidated by the equity method.

## Selected awards

February 2017	Top Employer 2017 – 1st place in the Czech Republic in the survey among university students and graduates in the category Banking and Investments
June 2017	Sodexo Employer of the Year 2017 – 2nd place in the Czech Republic in the category of companies with more than 5,000 employees. KB won 1st place in that same category in Prague region.
September 2017	Euromoney Cash Management Survey – 2nd place in the Czech Republic
October 2017	The Best Private Bank in the Czech Republic title awarded by PWM and The Banker magazines from the Financial Times group

November 2017	Bank of the Year competition in the Czech Republic: 1st place in the category Bank of the Year 2nd place in the category Most Trustworthy Bank 3rd place in the category Private Bank of the Year Best insurer Hospodářské noviny award – 2nd place for Komerční pojišťovna in the category Best Life Insurer
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## New products and services

January 2017	KB Innovative Lab – A development platform for co-operating with start-ups, universities, business accelerators, and other partners towards developing banking products and services.	
	KB Advisory Point – Expert advisory for clients who are business owners and managers in the areas of development and boosting competitiveness in co-operation with the renowned consultancy partners.	
April 2017	American mortgage – A general-purpose home equity loan from KB collateralised with real property and offering more advantageous terms and conditions than do other consumer loans.	
	Operational leasing with services – An SGEF product including services (vehicle maintenance and repairs, road tax, car radio fee, insurance) that are part of the lease and incorporated into the leasing payments, including the VAT base. It simplifies the clients' cash flow management and administration of vehicle operations.	
	MojePojištění majetku – A successful product from Komerční pojišťovna expanded to include liability insurance for the whole family.	
May 2017	KB Transparent Account – Perfecting the functionality and simplifying public access to information from the accounts of clients especially from the public sector and among non-profit organisations.	
	MojePojištění majetku – KP made information about the insurance accessible on-line through KB internet banking.	
June 2017	Superhero payment cards – A unique edition of payment cards prepared in co-operation with Warner Bros. These depict popular heroes embodying the fight for justice and good, including Wonder Woman, Superman, and Batman.	

July 2017	KB Innovation Point – A web portal with specific guidelines and examples of smart solutions including such areas as energy savings, environmental protection, and transportation.	
	Authorising all transactions in Mobile Bank and the Mobile Bank Business using fingerprints.	
August 2017	MůjÚčet, MůjÚčet Plus, and MůjÚčet Gold – A new line of current account packages conforming to the various requirements of different clients.	
	KB Infinity credit card – The most prestigious card from KB, it offers above-standard travel insurance for the entire family, worldwide legal assistance, extensive assistance services, secure Internet connection, and access to airport VIP lounges.	
October 2017	KB Port Brno – the first purely student branch in the Czech Republic at Brno's Náměstí Svobody supports young people in their lives, for example during their studies, travels, accommodation, financial support of their families, and business.	
	On-line chat – A new service on the KB website providing information about the Group's products but also assistance when a card is lost, in booking a meeting at a branch, when entering payments, and a number of other common situations.	
December 2017	Android Pay – Komerční banka launched quick and easy payments through mobile phones using the Android Pay app.	
	Smart Direct Debit – Allows companies to prepare direct debit permissions for authorisation by clients, informs on non-executed direct debit payments and the reasons for non-payment.	



for Business clients



for Individual clients



Internal efficiency



Positive environmental, social impacts



## Individuals

Komerční banka is among the three largest banks in the Czech Republic by number of retail clients serviced<sup>1</sup>. KB has a long-term focus on client-oriented approach, innovativeness, introducing new solutions and expanding the product range. This all has contributed in 2017 to KB's once again being awarded the prestigious title Bank of the Year. KB continually endeavours to bolster the levels of security, trustworthiness, and modernity of the services it provides. The Bank's business model is not based on offering individual products but rather it aims to take a comprehensive approach and to provide advisory in a broad range of financial areas so that the provided solutions correspond to the clients' actual needs and wishes, including their choices of distribution channels. Each Komerční banka client has his or her own banking advisor who is able to optimise the structure of that client's products and services also thanks to the unique Moje Plány (My Plans) application.

KB acquired nearly 83,000 new clients in the Individuals segment, bringing the total number of clients to 1,406,000. That represents a year-on-year gain of 0.6%. The Bank also maintains a prominent position in the children and youth segment, with more than 408,000 accounts.

In lending to individuals, the overall volume of housing loans<sup>2</sup> granted by KB Group grew by 6.5% from the year earlier. Within this total, the portfolio of KB mortgages to individuals expanded by 4.7% to CZK 217.7 billion. Modrá pyramida reported growth of its portfolio by 12.4% to CZK 43.6 billion. The volume of KB Group's consumer lending (provided by the Bank, ESSOX and PSA Finance in the Czech Republic and Slovakia) was up by 6.5% to CZK 37.5 billion.

Deposits at Komerční banka from individual clients grew by 9.5% from the year earlier to CZK 245.7 billion. The deposit book at Modrá pyramida contracted by 2.2% to CZK 62.6 billion due to maturing old contracts, but sales of new saving contracts went up significantly.

Client assets managed by KB Penzijní společnost were higher by 8.8%, at CZK 53.3 billion. Technical reserves in life insurance at Komerční pojišťovna expanded by 1.7% to CZK 47.8 billion. The volumes in mutual funds held by KB Group clients grew by 12.5% to CZK 62.9 billion.

In the past year, Komerční banka brought a number of new features to its internet and mobile banking, including to increase the number of products available on-line. The Bank's clients can pay fast and simply using their mobile devices and the Android Pay application from Google. KB's upgraded mobile banking newly supports authorisation of any transaction by fingerprint, and it is simpler now in Mobilní banka to select a payment counterparty or to purchase mutual funds. For heightened security, the IBM Trusteer solution is available to clients for on-line banking. Trusteer also is available in its Mobile version for mobile banking users, including now for devices running on the iOS operating system.

KB aims to offer innovative products and services to its clients. To facilitate innovation, Komerční banka opened the Innovation Lab, a development platform facilitating KB's co-operation with the IdeaSense agency and other external partners, clients, universities, start-ups, business accelerators and other groups.

A major change in 2017 was KB's introduction of a new range of current account packages corresponding to the various requirements of diverse clients. The entry-level MůjÚčet (MyAccount) package provides a current account at no fee that is accessible on-line or at the branches, a contactless payment card, withdrawals from KB ATMs, and receipt of incoming payments. MůjÚčet Plus is for clients who want to have included also all electronic transactions and withdrawals even from ATMs of other banks. Finally, MůjÚčet Gold is for clients who can appreciate additional services, such as worldwide ATM withdrawals, travel insurance covering the whole family, assistance services and other advantages.

The Bank brought something new dedicated to young clients, too. The MůjÚčet Junior current account and Spořicí Účet Junior savings account will guide children in their first steps in the banking world while allowing them to save at advantageous interest rates. Preparing and supporting young people in their lives, such as for studies, travels or entrepreneurship, are the main goals of the new KB Port Brno branch, opened in the centre of Brno. At this first student branch within the Czech Republic, young clients can communicate using their own language in a relaxed atmosphere. Clients of all ages have shown great interest in limited edition payment cards featuring popular comic superheroes (Wonder Woman, Superman, Batman), issued in co-operation with Warner Bros. entertainment company.

Komerční banka also broadened its offer of investment and insurance products. An example is the KB Flexible Private Asset Management Fund, which evaluates and identifies the most opportune investments mix for the client. It has no limitations regarding eligible asset classes and thus can take maximum advantage of current opportunities by adjusting the fund's composition in accordance with where it finds opportunities in the market. Via Skype, clients may connect directly with investment specialists at selected branches to discuss their investment targets in detail and to set up appropriate investment solutions. In co-operation with Komerční pojišťovna, KB extended the coverage in 2017 of MojeJistota life insurance for the whole family by introducing a version suitable for children.

Continuously striving to make its services more accessible, the Bank in 2017 expanded its network of deposit-taking ATMs. These enable clients not only to withdraw but also deposit cash to their accounts. At the end of the year, there were already 238 deposit-taking machines in KB's network. The expansion will continue during 2018.

Implementation of the revised EU Payment Services Directive will further intensify competition on the market, but the Bank views this situation also as an opportunity to offer clients attractive new options which may boost even further the value of the provided services.

<sup>1</sup> Source: public reporting of Czech banks

<sup>2</sup> Housing loans: mortgages to individuals provided by KB + loans to clients provided by Modrá pyramida

In 2018, KB will strive to maintain the trend in acquiring new and retaining existing clients. It will further simplify processes, strengthen its multichannel approach, improve the quality of services, and do all this while constantly emphasising the security of its provided solutions

## Private Banking

Komerční banka offers comprehensive Private Banking services to clients with financial assets exceeding CZK 20 million at its branches in Prague, Brno and Ostrava, as well as – if such clients prefer – outside the Bank's business premises. Clients with assets in excess of CZK 3 million have access to selected Private Banking products at 63 regional branches.

Services provided include in particular private portfolio management, a comprehensive range of investment instruments, first-class banking service, as well as real estate and Lombard loans for financing clients' private needs.

In 2017, KB Private Banking further strengthened its services directed to structuring family assets and multi-generational planning for assets transfer, and it assisted in sales of 39 companies valued at more than CZK 3 billion. It introduced additional innovative solutions, such as a new fund for qualified investors investing into income-generating real estate (Realitní fond KB II), and it expanded the range of investment funds offered in an open architecture. Historically low interest rates also supported strong client demand for financing private projects.

An international jury appointed by the renowned magazines The Banker and PWM from the Financial Times group recognised KB with the title "Best Private Bank in the Czech Republic 2017". The jury gave KB Private Banking high marks for its dynamic growth in the number of clients, volume of assets under management, and leading position with regard to investment-related innovations, expertise and long-time stability of the local teams.

Priorities for 2018 include further developing portfolio management and investment advisory services in an open architecture. KB Private Banking will focus, too, on services to company owners selling their businesses, intergenerational structuring of assets, and constructing financial asset portfolios.

## Small Businesses

The regular annual survey on banking services conducted by GfK showed that KB continues to serve the largest number of clients having turnover between CZK 10 and 60 million (with almost 50% of enterprises in this category using KB's services), and it is one of the top three banks for entrepreneurs with sales of up to CZK 10 million (with approximately a 20% market share). During 2017, the Bank acquired more than 18,000 new clients, and the number of small businesses serviced exceeded 246,000.

Entrepreneurs and small businesses benefitted in 2017 from a favourable economic situation and developed their investment activities using medium- and long-term credit. Their expanding activity contributed to growth in their bank deposits, which rose by 10.0% to CZK 175.9 billion. The higher deposit balances allowed the clients to increase self-financing of their projects and pressed down demand for short-term financing. The volume of loans provided by the Bank to small businesses (excluding reverse repo operations) further expanded to CZK 34.1 billion, constituting growth of 5.3%. Along with standard operating capital and investment loans, financing of machinery, equipment and cars from SGEF, ESSOX and ALD Automotive also grew, as did factor financing from Factoring KB. Towards the end of the year, KB implemented simpler internal processes for refinancing and consolidation of loans that clients had drawn from other bank or non-bank competitors.

Komerční banka continued in developing the Nastartujte se (Start up!) concept, which, together with a grant programme, provides to beginning entrepreneurs on KB's web pages and Facebook profile practical information and price-advantageous offers from KB's non-banking partners. The grant programme has entered its fifth year already, and 59 projects from starting entrepreneurs were enrolled during 2017.

Newly in 2017, KB became a banking partner of the Czech Association of Franchising. The Bank aims to support this appealing and promising business concept with its services and financing. KB also continued to co-operate with the Association of Private Farming of the Czech Republic and the Association of Small and Medium-sized Enterprises. It supported the Year of the Countryside project that focused on enterprises in municipalities having fewer than 3,000 residents.

In 2018, Komerční banka will test a model that centralises the servicing of those clients whose needs encompass a broader range of banking services. Meanwhile, it will continue in simplifying processes in client financing, improving access to selected products through on-line channels, expanding the availability of deposit ATMs, and innovating by offering useful and practical services for smaller businesses and start-ups.

## Corporates and Municipalities

The release of the currency floor established by the CNB was a major event for businesses and municipalities in 2017. After three and half years, corporations had to begin again looking for ways to mitigate their currency risks. Besides using hedging instruments, they transacted with each other more often in euro, and they borrowed more in euros, as well.

Even in this environment, KB maintained its leading position on the corporate banking market, as market research shows that 42% of small and medium enterprises used the Bank's services.<sup>1</sup> KB is also one of the two largest banks in public sector financing<sup>2</sup>. KB Group is the most important partner for European financial institutions in the Czech Republic, and it is an exclusive partner in some of their programmes<sup>3</sup>.

Although the CNB increased its policy interest rates twice during 2017, competition in the Czech market did not allow for this rise to be fully reflected in loan rates. Demand was growing for the financing of companies' further development (mainly investment into expanding production capacities, energy saving technology, as well as automation and digitalisation of production, often with support from EU subsidies) and construction of buildings (housing and logistics parks). In addition to bank loans, the firms also used leasing and factoring products from other companies within KB Group. On the other hand, demand for working capital financing was subdued as companies had ample cash of their own. In these market conditions, the volume of financing provided decreased vis-à-vis the previous year by 2.0% to CZK 103.4 billion<sup>4</sup>. With the ending of the CNB's regime of currency interventions at the beginning of 2017, the volume of client deposits expanded year on year by 5.8% to CZK 150.5 billion<sup>4</sup>. The number of KB's clients in the segment rose modestly to 10,531 corporations and municipalities. These were served in 29 corporate branches.

Komerční banka also strengthened its on-line communication channels during 2017. Companies can exchange and sign documents on a secure electronic communication platform, as well as manage their payment cards. KB launched the simple Android Pay mobile-telephone service. Using the Mobilní banka Business application, corporate clients not only can log on to the application but also authorise payment transactions and other operations with merely a fingerprint. In December 2017, the Bank added the "smart direct debit" functionality, which increases the fulfilment rate for direct debit orders and thus reduces the clients' administrative burden of reminding customers about unpaid invoices. KB remains ever highly vigilant about the security of internet and mobile banking. The IBM Trusteer Mobile protection has now been made available also to mobile telephone and tablet users whose devices run on the iOS operating system.

KB launched KB Advisory Point to provide comprehensive solutions and advisory to businesses in various areas of their businesses. Furthermore, the Bank began to share practical and innovative solutions for businesses and municipalities on the KB Innovation Point web platform. The web pages were enhanced with a section providing information about EU subsidies and with a new information service for the agriculture, energy, and foreign trade sectors and for cash management.

Within the corporations and municipalities segment during 2018, KB will make it a priority to broaden further its co-operation with international financial institutions (Czech Export Bank, European Investment Fund, European Investment Bank) to provide financing with reduced interest rates or collateral requirements. There will be a new guarantee programme for financing activities in the cultural and creative sectors. KB will further expand its range of secure on-line services, will introduce new methods for login authentication, authorising payments, and signing of documents, and it will develop the possibilities for exchange of electronic documents between the Bank and clients. The upgraded website **www.kb.cz** will have a higher number of specialised expert microsites, including pages dedicated to the real estate sector, smart technologies, and innovations in the private as well as public sectors. The year 2018 will bring also simplification of internal processes for loan and deposit products, substantial shortening and simplification of KB's price list, and, most of all, work to make contractual documentation simpler and more transparent.

## Top Corporations

Komerční banka's strategic objective in the Top Corporations segment is to maintain a leading position in the provision of comprehensive banking services and to be the reference bank on the market for providing tailored solutions in the areas of financing, payments, provision of bank guarantees, import and export letters of credit, and other services. Komerční banka provides its clients with a wide range of products and services, including highly specialised ones from investment banking as well as export, structured and syndicated financing. At the same time, it brings clients comprehensive solutions for transactions unique on the banking market, including bond issuance and M&A advisory. KB's product offer is complemented by the offers from subsidiary and affiliated companies providing leasing, factoring services and supplementary pension insurance. KB clients value in particular the stable sales team for its reliability, professional approach and knowledge. In meeting the needs of top multinational clients, KB co-operates in creating solutions with expertise provided by Société Générale Group. It also offers clients the possibility to use Société Générale Group's extensive international network, in particular for export finance solutions, payment services and international cash pooling structures.

Komerční banka has long held a leading place in financing and servicing companies in the Top Corporations segment. Its market share in the area of lending to businesses with turnover exceeding CZK 1.5 billion was around 24%<sup>5</sup> in 2017. Due to its having this position, Komerční banka has a correspondingly important share in the provision of payment services and other day-to-day banking services. KB's portfolio of clients in the Top Corporations segment is relatively stable.

<sup>1</sup> According to a survey prepared by GfK

<sup>2</sup> Source: ČNB, reports of other Czech banks

<sup>3</sup> Source: KB's own research

<sup>4</sup> Including volumes within KB Group

<sup>5</sup> Source: comparison of KB and CNB data

Market trends in 2017 were driven by the favourable macroeconomic situation in the Czech Republic and Europe, and by the end of currency interventions in April. The strong domestic consumption and growing foreign demand reflected positively on the overall economic condition of KB's corporate clients. Banks generally had to cope in the first half of the year with low interest rates and excess liquidity in Czech crowns. On the contrary, liquidity in euro was tight because of speculation on crown appreciation. The release of the currency commitment and subsequent gradual strengthening of the crown led to an increase in corporations' demand for hedging instruments. The clients benefitted from the low interest rates, which also boosted demand for hedging of interest rate risks. Komerční banka was successful, too, in the market as an arranger of large transactions. Revenue from financing and related services continues to be the main contributor to the segment's overall income.

Only foreign currency-denominated lending to non-financial corporations grew year on year on the Czech market while the volume of Czech crown loans declined. The total volume of loans (excluding reverse repo operation) decreased year on year by 7.3% to CZK 137.6 billion, affected also by repayment of a large credit exposure. The total deposits in the segment expanded by 18.8% to CZK 102.6 billion.

In 2018, Komerční banka will aim to improve its services – and ultimately client satisfaction – by fully exploiting the synergies within the KB and SG Groups. The Bank will continue to monitor the market for new investment opportunities and the related transactions. The growth of the Czech economy should be driven by further fiscal stimulus, increasing consumption by households and firms, and especially by expected growth in public investments co-financed by new EU subsidy programmes. These trends should also support demand for credit. Corporations will adjust their requirements according to expectations for rising interest rates and tightening of monetary policy. Competition on the banking market most likely will continue to be very intense, pressing down average interest margins.

### **Komerční banka, a.s., pobočka zahraničnej banky (KB SK)**

KB SK is Komerční banka's sole foreign branch. It operates in Slovakia on the basis of a single banking licence issued by the CNB. KB SK is cultivating its co-operation with top corporations within Slovakia, as well as with those clients of KB and SG groups operating there.

The performance of KB SK naturally reflects the situation on the Slovak market. The euro is the domestic currency of Slovakia, and therefore excess liquidity, magnified by the financing support programmes of the European Central Bank, influenced business in Slovakia's financial sector. KB SK experienced narrowing spreads for client financing, although this was successfully offset by significant year-on-year growth in the total volume of loans to a new high point in KB SK's history. Due to vigilant cost control and low cost of risk, the net profit increased substantially and KB SK set a new profit record, too.

KB SK's team remained very stable, and its professionals delivered the Bank's services to clients at a high quality standard. The branch invested substantially into its systems and processes to meet rigorous regulatory requirements. Projects mitigating operational risks, particularly in the area of anti-money laundering and combating the financing of terrorism, remain an ongoing top priority.

The Slovak economy's solid performance is boosting clients' performance as well as their investment appetites. That should provide a solid base for further growth in business investment during 2018 and, therefore, for stronger financing demand. Continuing focus on efficiency, prudence in lending and compliance with regulatory requirements will remain a good recipe for again growing stakeholders' value in 2018.

### **Investment banking**

The year 2017 was marked by several one-off events that spurred greater activity not seen in years among investors and in volatility across asset classes.

Most importantly, the Czech National Bank lifted its CZK/EUR exchange rate floor of CZK 27 in April, allowing the Czech currency to float freely and appreciate. Moreover, the CNB started to tighten monetary policy via interest rate hikes, becoming the first EU central bank to do so in this economic cycle. Inflation exceeded the CNB's inflation target, driven mostly by core inflation attributable to strong domestic demand. The favourable economic conditions gave investors confidence in further monetary policy tightening, and thus the crown strengthened to multi-year highs (it closed the year at CZK 25.54/1 EUR, making it the second fastest-strengthening currency of 2017) and market interest rates strengthened modestly.

The Czech equity market performed well in 2017. The PX index gained 17%, thereby outpacing, for example, Germany's DAX and the STOXX Europe 600 indices. The Czech market did, however, lag stock markets in other CEE markets. The Prague Stock Exchange also rewarded investors with an above-average dividend yield. After a recovery in trading activity due to two secondary public offers of Moneta Money Bank's shares in 2016, however, the trading volume returned to its long-term declining trend.



KB's investment banking achieved excellent results in 2017 across all teams. The Czech and Slovak corporate sales desks put in a solid performance while executing large and sophisticated transactions in interest rate, cross currency swap, and foreign exchange markets. By taking an active approach and in professional co-operation with the financial markets division of Société Générale, the Bank further developed its foreign exchange, interest rate swap, and commodity services. Volumes and revenues from the eTrading platform increased, as well. The Financial Institution Sales Desk executed several corporate bond issues and cross currency repo transactions. The sales desks achieved good results due to the increased volatility in foreign exchange and interest rate products plus wider EUR-CZK spreads. Traders earned significant income from market making activities, as flow from clients increased substantially. There was particularly strong clients volume in foreign exchange deals during the first quarter of 2017 before the CNB lifted its currency floor. Moreover, interest rate derivative and bond flow was strong in relation to the CNB rate hikes.

## Structured Finance

KB's Structured Finance arm (SFA), established in early 2016 through reorganising and merging a number of front office teams into a single arm, offers structured financing and advisory solutions in a wide range of sectors, including export finance, real estate finance, energy finance, acquisition and leveraged finance, debt syndication and debt capital markets.

SFA aims to strengthen KB's origination and execution capabilities for structured financing transactions in its core domestic markets (Czech Republic and Slovakia). In addition, SFA supports and assists a number of Société Générale Group entities in Central and South-Eastern Europe in providing structured finance solutions to their clients.

This configuration addresses the growing needs of KB customers for sophisticated and tailor-made solutions. It enables Komerční banka to provide better support to its customers in their international transactions by enhancing co-operation with Société Générale Group on transactions requiring an international execution chain.

SFA is made up of approximately 50 professionals with in-depth knowledge in their respective areas. During 2017, KB successfully completed establishment of its structured finance team, including formation of the new corporate finance department, which focuses on advisory for buyers and sellers in mergers and acquisitions, advisory in debt and equity capital markets, and bond issuance. Here, too, co-operation with the global Société Générale Group and utilising its potential provide KB with a major competitive advantage.

Komerční banka intends during 2018 to strengthen its leading position on the Czech and Slovak structured finance markets. In this context, SFA will maintain its client centric approach while offering customised solutions and benefitting also from close and active co-operation with Société Générale Group.

## Transaction and payment services

### Cash payment operations

Komerční banka is succeeding in meeting the goals set down in its strategy for cash payment operations. During 2017, KB continued to expand its own ATM network, mainly using technology from a newly selected partner. This has enabled the Bank to remain the Czech Republic's leader for the number of ATMs accepting cash deposits. At the end of 2017, KB was operating a total of 764 ATMs, 238 of which were deposit ATMs (including 41 ATMs with cash recycling) as opposed to 195 deposit-taking ATMs in 2016. At the same time, projects were launched to expand further the offer of ATM services in 2018, as these are becoming an increasingly important channel for providing services to KB's clients.

As part of its new branch network development concept, KB began gradual implementation during 2017 of teller cash recyclers in the branch network. The new generation of teller cash recyclers facilitates more efficient and secure cash payment transactions in the Bank's business operations, thereby providing greater convenience to the clients it serves. At the same time, due to these technological changes, the related parts of the KB price list have been simplified.

### Non-cash payment operations

Komerční banka is among the three largest players on the Czech market.<sup>1</sup> The Bank recorded a 1% year-on-year rise in the number of domestic non-cash payments, and even an 11% greater number of foreign payments. The share of Single Euro Payment Area (SEPA) payments within the total number of foreign payments exceeds 72%.

At the end of 2017, the Bank introduced a new internet banking product, "Chytré inkaso" (Clever debit), which simplifies the setting up of direct debit. If the client had not pre-authorised the direct debit, KB will prepare it according to the information received from the debit initiator. The client, then, simply checks and authorises the debit instruction. From April 2018, "Chytré inkaso" will also be available in mobile banking.

KB continued in making payment transactions faster and more transparent. Within internet banking, the Bank now informs the client about the amounts of fees for SEPA, foreign and domestic express payments directly when they are entered. The displays of internet banking tools are now more clearly organised, even as they provide clients with better control and more information. Clients can now authorise direct debits fully online and in real time.

For 2018, Komerční banka is preparing an improved overview of payments and better orientation in using internet banking. The Bank will focus on transferring information on domestic payments and further accelerating payments both within KB and to other domestic banks.

<sup>1</sup>Source: CNB statistics

## Payment cards

With 1.6 million payment cards issued and a market share of ca 15% for the number of issued cards, KB holds third place on the Czech market.<sup>1</sup>

The expansion of contactless technology and cards have contributed to the increase in the total number of card transactions. Total card turnover grew by 8.6% in comparison with 2016, to almost CZK 220 billion.

In 2017, Komerční banka was among the most active innovators on the market. It launched mobile payments via Android Pay in the Czech Republic and abroad. KB also introduced the new VISA Infinite Card product and brand new card designs, including limited editions in collaboration with Warner Bros.

In the area of payment cards acceptance, KB continued to develop its alliance with Worldline under the KB SmartPay brand. The alliance acquired more than 4,500 new clients and in total operated almost 40,000 payment terminals in the Czech Republic.

## Trade finance and cash management

KB is also a leading provider of trade finance services. The Bank recorded a double-digit gain in sales volume for export letters of credit. Altogether, documentary payments grew by 2.1%. The volume of new sales and subsequent commitments in the area of bank guarantees showed a slight decline, mainly due to a poor situation in the engineering and construction market. The share of import letters of credit submitted online through the Trade & Finance OnLine application increased to 94%, while this proportion for bank guarantees reached 74%.

Cash management was one of KB's fastest growing product lines. For large international clients, KB offered new forms of international electronic banking.

## Selected indicators on payment services

Komerční banka (Bank only)	2017	2016	Year-on-year change
<b>Number of active* payment cards</b>	<b>1,578,000</b>	<b>1,575,000</b>	<b>0%</b>
– debit cards	1,396,000	1,384,000	1%
– credit cards	182,000	191,000	-5%
Volume of payments using KB cards (in CZK million)	94,000	80,000	18%
Number of payments using KB cards	124,711,000	102,098,000	22%
<b>Volume of cash withdrawals (in CZK million)</b>	<b>254,000</b>	<b>252,000</b>	<b>1%</b>
– via ATM	132,000	129,000	2%
– via non-ATM	122,000	123,000	-1%
<b>Volume of cash deposits (in CZK million)</b>	<b>300,000</b>	<b>300,000</b>	<b>0%</b>
– via ATM	28,000	12,000	131%
– via non-ATM	272,000	288,000	-6%
<b>Number of cash withdrawals</b>	<b>28,289,000</b>	<b>29,203,000</b>	<b>-3%</b>
– via ATM	26,769,000	27,502,000	-3%
– via non-ATM	1,520,000	1,700,000	-11%
<b>Number of cash deposits</b>	<b>6,494,000</b>	<b>6,889,000</b>	<b>-6%</b>
– via ATM	1,368,000	730,000	87%
– via non-ATM	5,126,000	6,159,000	-17%

\* Cards in circulation

<sup>1</sup> Source: The Czech Bank Cards Association, [http://www.bankovnikarty.cz/pages/english/profil\\_statistiky\\_e.html](http://www.bankovnikarty.cz/pages/english/profil_statistiky_e.html)

As of 31 December 2017, Komerční banka had 10 subsidiaries and 1 associate, Komerční pojišťovna, where it held a 49% share. KB considers these companies as part of the Group. In addition to its ownership interests in the Group, KB held strategic interests of 20% in Czech Banking Credit Bureau, a.s. and 20%<sup>1</sup> in Cataps, s.r.o.

In March 2017, KB concluded the sale of its fully owned subsidiary NP 33, s.r.o., the sole owner of the current headquarter building of Komerční banka at Na Příkopě 33 street in Prague, to Commerz Real Investmentgesellschaft mbH. In October 2017, KB purchased 100% shares in the company Office Center Stodůlky a.s. from the companies FINEP HOLDING, SE and Real 12 a.s. Office Center Stodůlky is the owner of the new office building in Prague - Stodůlky. Following the acquisition, the company was renamed to STD2, a.s. (registered on 31 October 2017).

With the aim of maximising all potential synergy effects, KB Group deepened mutual business co-operation within the Group during 2017 and also with other members of Société Générale Group operating on the Czech market. Special emphasis is given to improving co-ordination of product development in business areas, as well as in distribution, procurement, IT and other supporting services. The result should be optimal, comprehensive and effective satisfaction of clients' financial needs. An example is the merger of ESSOX and its subsidiary PSA Finance Czech Republic, s.r.o. with effect from 1 January 2018. PSA Finance Czech Republic, s.r.o. finances Peugeot and Citroën cars and has been a member of the Group since July 2016. Its merger with the parent company ESSOX will simplify and smoothen the process of financing car acquisitions.

Information on values and changes in equity investments is provided in the Separate Financial Statements according to IFRS, note No. 24 'Investments in subsidiaries and associates'.

## Summary of the results of major companies in Komerční banka Group

CZK million, IFRS	Group Holding (%)*	Total assets		Shareholders' equity		Net profit		Consolidation method
		2017	2016	2017	2016	2017	2016	
Domestic participations								
Modrá pyramida stavební spořitelna, a.s.	100	83,822	84,559	6,284	6,292	898	883	Full
Komerční pojišťovna, a.s.	49	53,167	55,478	2,406	2,608	437	410	Equity
KB Penzijní společnost, a.s.	100	2,092	2,049	1,658	1,602	256	234	Full
SG Equipment Finance Czech Republic s.r.o.	50.1	28,951	28,794	4,072	4,049	313	289	Full
ESSOX s.r.o.	50.93	13,164	11,648	3,577	3,634	412	464	Full
Factoring KB, a.s.	100	8,756	8,573	1,598	1,609	86	78	Full
Protos, uzavřený investiční fond, a.s.	100	6,146	8,093	6,133	8,061	195	239	Full
KB Real Estate, s.r.o.	100	956	987	498	497	1	2	Full
VN 42, s.r.o.	100	2,136	2,102	2,104	2,078	26	32	Full
STD2, s.r.o.	100	410		9		(1)		Full
PSA FINANCE ČESKÁ REPUBLIKA, s.r.o. (100% subsidiary of ESSOX s.r.o.)	50.93	2,574	3,067	755	757	(2)	12	Full
Foreign participations								
Bastion European Investments S.A.	99.98	5,524	6,185	2,726	3,118	5	31	Full
PSA FINANCE SLOVAKIA, s.r.o. (100% subsidiary of ESSOX s.r.o.)	50.93	2,166	1,859	150	184	(25)	7	Full

<sup>\*</sup> KB direct and indirect holding

<sup>1</sup> KB's interest in Cataps decreased to 1% after the Bank sold 19% in Cataps on 27 February 2018.

## Basic information on Komerční banka Group's major companies



### Modrá pyramida stavební spořitelna, a.s.

Modrá pyramida is a fully owned subsidiary of KB. It is the second largest building savings bank in the Czech Republic as measured by loan volume with a 17% market share<sup>1</sup>. Main products offered by Modrá pyramida include: state-subsidised savings accounts, bridging loans and building savings loans. With its approximately 1,000 advisors, Modrá pyramida's distribution network provides additional products and services of KB Group and other business partners, such as mortgages and KB bank products, supplementary pension saving, mutual funds and life and non-life insurance.



### KB Penzijní společnost, a.s.

A fully owned subsidiary of Komerční banka, KB Penzijní společnost's core business is to collect contributions and manage them in pension funds pursuant to the Supplementary Pension Savings Act and as supplementary pension insurance in the Transformed Fund. By number of participants, this pension company has a 15% share in the supplementary pension savings market (3rd pillar) and an 11% share in the pension insurance market (Transformed Fund).<sup>3</sup>



### SG Equipment Finance Czech Republic s.r.o.

SG Equipment Finance is owned by Komerční banka (50.1%) and SG Equipment Finance International (49.9%). Through KB and its own network of seven branches in the Czech Republic and two in Slovakia, this company provides financing of equipment, agricultural and forestry technology, vehicles for transportation of goods and passengers, high-tech, real estate and special projects by leasing and lending. SGEF has a 9% market share in the non-bank financing market in the Czech Republic as measured by financed amount (excluding consumer loans).<sup>5</sup>

#### Financial summary (CAS<sup>2</sup>, CZK thousand)

	31.12.2017	31.12.2016
Total assets	84,424,675	85,024,701
Shareholder's equity	6,284,309	6,291,859
Loans to clients (gross)	43,802,262	39,001,080
Volume of deposits	76,429,239	76,381,234
Net operating income	1,506,916	1,531,700
Net profit	898,212	883,094
Average number of FTEs	327	330
Number of points of sale	216	216

#### Contact:

Modrá pyramida stavební spořitelna, a.s.  
Bělehradská 128, č. p. 222, 120 21 Prague 2  
ID: 60192852  
Phone: +420 222 824 111  
E-mail: info@modrapyramida.cz  
Internet: www.mpss.cz  
www.modrapyramida.cz

#### Financial summary (CAS<sup>2</sup>, CZK thousand)

	31.12.2017	31. 12. 2016
Assets under management <sup>4</sup>	54,621,822	52,238,529
of which in Transformed Fund	49,595,639	49,864,419
Shareholder's equity	1,658,411	1,601,777
Net operating income	377,718	361,403
Net profit	256,634	234,400
Average number of FTEs	48	47

#### Contact:

KB Penzijní společnost, a.s.  
nám. Junkovských 2772/1, 155 00 Prague 5  
ID: 61860018  
Phone: +420 955 525 999  
E-mail: kbps@kbps.cz  
Internet: www.kbps.cz

#### Financial summary (CAS<sup>2</sup>, CZK thousand)

	31.12.2017	31.12.2016
Total assets	30,120,410	29,642,418
Shareholder's equity	4,096,524	3,779,246
Volume of new financing	11,947,817	12,252,728
Net operating income	1,008,114	719,007
Net profit	606,579	374,722
Average number of FTEs	126	124

#### Contact:

SG Equipment Finance  
Czech Republic s.r.o.  
nám. Junkovských 2772/1, 155 00 Prague 5  
ID: 61061344  
Phone: +420 955 526 700  
E-mail: info@sgef.cz  
Internet: www.equipmentfinance.societegenerale.cz

<sup>1</sup> Source: Comparison of internal data with reporting of other building societies and CNB ARAD statistics at [http://www.cnb.cz/docs/ARADY/HTML/index\\_en.htm](http://www.cnb.cz/docs/ARADY/HTML/index_en.htm)

<sup>2</sup> CAS: Czech Accounting Standards. Not audited.

<sup>3</sup> Source: Association of Pension Funds of the Czech Republic, [www.apfcr.cz](http://www.apfcr.cz)

<sup>4</sup> Total volume on client accounts

<sup>5</sup> Source: Czech Leasing and Finance Association, <https://www.clfa.cz/index.php?textID=64>



## ESOX s.r.o.

Owned by Komerční banka (50.93%) and SG Consumer Finance (49.07%), ESSOX is a non-bank provider of consumer loans and financial leasing for consumers and performs activities of payment institutions within the scope of payment services under a licence from CNB. ESSOX has a 17% market share in consumer lending provided by companies associated in the Czech Leasing and Finance Association<sup>1</sup>. Main products include financing of consumer goods and automobiles, general-purpose loans and revolving credit (credit card). Through the acquisition of PSA Finance Czech Republic and PSA Finance Slovakia, ESSOX entered the market for financing new cars in 2016. As of 1 January 2018, PSA FINANCE Czech Republic became part of its parent company, ESSOX s.r.o., and PSA FINANCE Slovakia changed its name to ESSOX FINANCE, s.r.o.

### Financial summary (CAS<sup>2,3</sup>, CZK thousand)

	31.12.2017	31.12.2016
Total assets	13,166,357	11,661,116
Shareholder's equity	3,499,937	3,596,062
Amounts due from clients (gross)	10,580,298	10,108,567
Net operating income	1,110,368	1,090,034
Net profit	384,158	470,952
Average number of FTEs	352	346

### Contact:

ESOX s.r.o.  
F. A. Gerstnera 52,  
370 01 České Budějovice  
ID: 267 64 652  
Phone: +420 389 010 111  
E-mail: [esox@esox.cz](mailto:esox@esox.cz)  
Internet: [www.esox.cz](http://www.esox.cz)

<sup>1</sup> Source: Czech Leasing and Finance Association, <https://www.clfa.cz/index.php?textID=64>

<sup>2</sup> CAS – Czech Accounting Standards. Not audited.

<sup>3</sup> Unconsolidated figures



## Factoring KB, a.s.

Factoring KB is a fully owned subsidiary of Komerční banka and is the largest factoring company in the Czech Republic. It has a 30% share on the Czech factoring market according to the volume of receivables transferred<sup>4</sup>. Through its own and KB's networks, the company provides the following products: domestic factoring, export factoring, import factoring, modified factoring and receivables management.

### Financial summary (CAS<sup>2</sup>, CZK thousand)

	31.12.2017	31.12.2016
Total assets	14,713,627	13,976,690
Shareholder's equity	1,598,323	1,609,743
Factoring turnover	42,837,855	37,761,677
Amounts due from clients (gross)	13,941,147	12,869,688
Net operating income	203,679	202,495
Net profit	86,535	78,137
Average number of FTEs	42	42

### Contact:

Factoring KB, a.s.  
nám. Junkových 2772/1, 155 00 Prague 5  
ID: 25148290  
Phone: +420 955 526 906  
E-mail: [info@factoringkb.cz](mailto:info@factoringkb.cz)  
Internet: [www.factoringkb.cz](http://www.factoringkb.cz)

<sup>4</sup> Source: Czech Leasing and Finance Association, <https://www.clfa.cz/index.php?textID=64>



## Komerční pojišťovna a.s.

The shareholders of Komerční pojišťovna are SOGECAP (51%) and Komerční banka (49%). This insurance company has a 3% share in the life insurance market (according to methodology of the Czech Insurers Association, measured by premiums written)<sup>5</sup>. Main products include: savings life insurance, risk life insurance, capital life insurance, investment life insurance, accident insurance, payment card insurance, travel insurance, travel insurance for payment cards, risk life insurance for credit cards, risk life insurance for consumer loans and, since 2016, non-life insurance for residential real estate and households.

### Financial summary (CAS<sup>2</sup>, CZK thousand)

	31.12.2017	31.12.2016
Total assets	48,344,797	48,109,578
Shareholder's equity	1,719,327	2,597,615
Technical reserves (gross)	48,355,006	47,449,991
Gross premium written	6,149,823	6,660,083
Net profit	437,271	486,960
Average number of FTEs	186	180

### Contact:

Komerční pojišťovna a.s.  
Karolinská 1/650, 186 00 Prague 8  
ID: 63998017  
Phone: +420 222 095 999  
E-mail: [servis@komercpoj.cz](mailto:servis@komercpoj.cz)  
Internet: [www.kb-pojistovna.cz](http://www.kb-pojistovna.cz)

<sup>5</sup> Source: Czech Insurance Association, <http://www.cap.cz/images/statisticke-udaje/vyvoj-pojisteno-trhu/STAT-2017Q4-CAP-CZ-2018-01-25-WEB.pdf>



# | Corporate governance

(A separate part of the annual report pursuant to § 118 (4) (b), (c), (e) and (j) and (5) (a)–(k) and (6) of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended)

Komerční banka acceded to and upholds all the principal standards of corporate governance in compliance with the Corporate Governance Code based on the OECD principles as amended in 2004 and issued by the Czech Securities Commission (hereinafter the “Code”). The Czech wording of the Revision of the Code is available on the website of the Ministry of Finance of the Czech Republic at [www.mfcr.cz](http://www.mfcr.cz).

Komerční banka’s Board of Directors applies and develops the aforementioned principles of corporate governance, including the newly introduced European rules unifying corporate governance codes of best practice at the European level, and it reflects the new rules in its internal procedures and regulations.

Compliance with the Code is maintained through the Bank’s open approach to disclosing information on material matters of the Bank, in particular concerning its financial position, dividend policy, performance, ownership, corporate governance and company management. The financial reports provide a true and fair view of the Bank’s accounting and financial position. Shareholders are informed in a timely manner as to the date, location, and agenda of the General Meeting, with the proposals of the individual resolutions and their rationale, including information on the proposal for paying out the share in profit and the method of this payment. Shareholders are informed of their rights relating to their participation in the General Meeting, including a description of how to participate in the General Meeting, whether in person or on the basis of a power of attorney, and have at their disposal in advance materials concerning the agenda of the General Meeting. This information is available on the Bank’s website and in the press, and press releases are issued regularly.

Furthermore, the Code is filled with the chosen management system. The Bank has a two-tier management system that entails a separation of the executive and control functions. The Board of Directors performs all key functions of the Bank’s management. Operational management is divided among the individual members of the Board, and each member of the Board has competence over a certain area of the Bank’s activities (functional division). The Board of Directors nevertheless decides collectively at its meetings, which are held regularly at two-week intervals. Under the Bank’s Articles of Association, members of the Board are subject to rules and regulations over conflicts of interest even stricter than as defined by Act No. 90/2012 Coll., on Business Corporations. They are obliged to inform the Board of Directors and Supervisory Board of any existing or even potential conflicts of interest relating to functions they perform in any other legal entity and are obliged to abstain from voting on all matters

concerning the Bank’s relationship to such a legal entity. The Bank’s corporate governance and management system provides the members of the Board of Directors and the Supervisory Board with timely information relevant to the performance of their functions.

The Supervisory Board is a control body supervising the activities of the Board of Directors and of the entire Bank. Three of the Supervisory Board’s nine members are independent and two are employee representatives. The Supervisory Board is to establish Audit, Risk, Nominations and Remunerations committees. Members of the Audit Committee are appointed by the General Meeting. The majority of members of the Audit Committee, including the Chairperson, are independent and professionally qualified. The Audit Committee plays an important role in supervising the Bank’s proper management, the independence and objectivity of the external auditor, the auditor’s conduct of the mandatory audit, effectiveness of the risk management systems (together with the Risk Committee), and mechanisms of internal management and control. The Risk Committee monitors the Bank’s approach to risk, its strategy in the risk area, acceptable levels of risk and risk management.

The Bank applies a policy of diversity. The Supervisory Board endeavours within its scope of competence to ensure that the Board of Directors and Supervisory Board consist of persons with appropriate professional, time-related, and other requirements for the performance of their duties, that both bodies are balanced in terms of professional competence and experience, and that the composition of the Board of Directors and the Supervisory Board as a whole is diverse. For this purpose, the Nominations Committee of the Supervisory Board of Komerční banka, a.s. adopted the Main Principles for Nominating Members of the Supervisory Board and the Board of Directors and for Their Composition and Performance. These principles reflect the tenets of corporate governance, requirements of the Act on Business Corporations, the Banking Act, and Stock Exchange Standards. In nominating candidates for open positions on the Supervisory Board and Board of Directors, the Nominations Committee follows the stated principles and assesses first the balance of professional competence and experience and the diversity of the Supervisory Board’s composition as a whole (diversity is assessed in terms of experience, education, qualifications, profession, social position, gender, nationality, and age), followed by the profile of the current members of the Supervisory Board and their specific knowledge, followed by the candidate’s professional competence, experience, professional successes, understanding of the Bank’s activities and its main risks on the candidate’s side and, last but not least, his or her moral profile and integrity. The Nominations Committee also considers the target representation of the less-represented gender according to the accepted principles and the candidate’s time considering the time requirements of the obligations connected with the performance of the membership

function. Candidates respond to questions prepared for evaluating their suitability for the Bank's bodies and submit a professional CV, an extract from the criminal record, and references. Once a year, the Nominations Committee evaluates the trustworthiness, professional competence, and experience of the individual members of the Supervisory Board and the Board of Directors and of the two bodies as a whole and submits reports on this evaluation to the Supervisory Board. These evaluations form the basis for seeking candidates for open positions and for ensuring that the Supervisory Board as a whole as well as its members have suitable professional, time-related, and other requirements for performing their activities.

In 2017, these principles were applied in the cases of all changes that occurred throughout the year in the Board of Directors, and particularly regarding the change in the position of Chairman of the Board of Directors and strengthening the Board of Directors with responsibility for risk management. The main principles were also applied in 2017 in relation to all changes occurring in the Supervisory Board of Komerční banka, a.s., and particularly in increasing the number of independent members of the Board of Directors (replacing employee representatives) and in the change of the employee representative.

At its meeting in March 2017, the Nominations Committee also evaluated the activities of the Board of Directors of Komerční banka, a.s. and its individual members during 2016, as well as of the Supervisory Board of Komerční banka, a.s. and its individual members.

During 2017, three meetings of the Nominations Committee of the Supervisory Board of Komerční banka, a.s. occurred, one of which was held by correspondence.

There were no fundamental changes during 2017 that would adversely influence the aforementioned standards for the Bank's corporate governance. Komerční banka will continue to respect the principles of corporate governance, inasmuch as these best correspond with the Bank's business model as well as the interests of the Bank and its shareholders.

## Shareholders and the General Meeting

Komerční banka's share capital totals CZK 19,004,926,000 and is divided into 190,049,260 ordinary listed shares admitted to trading on the European regulated market, each with a nominal value of CZK 100. All the Bank's shares carry the same rights.

### Major shareholders of Komerční banka owning more than 1% of the share capital as of 31 December 2017

(per the extract from the issuers register taken from the Central Securities Depository)

Shareholder	Proportion of share capital
Société Générale S.A.	60.35%
Nortrust Nominees Limited	4.12%
Chase Nominees Limited	3.65%
Brown Brothers Harriman	2.68%
Clearstream Banking, S.A.	2.37%
State Street Bank and Trust Company	2.31%
GIC Private Limited	1.79%
J.P. Morgan Bank	1.44%
Other shareholders	21.29%

### Shareholder structure of Komerční banka as of 31 December 2017

(per the extract from the issuers register taken from the Central Securities Depository)

	Number of shareholders	Proportion in number of shareholders	Proportion of share capital
<b>Number of shareholders</b>	<b>47,110</b>	<b>100.00%</b>	<b>100.00%</b>
of which: legal entities	669	1.42%	96.60%
private individuals	46,441	98.58%	3.40%
<b>Legal entities</b>	<b>669</b>	<b>1.42%</b>	<b>96.60%</b>
of which: from the Czech Republic	199	0.42%	1.72%
from other countries	470	1.00%	94.88%
<b>Private individuals</b>	<b>46,441</b>	<b>98.58%</b>	<b>3.40%</b>
of which: from the Czech Republic	41,869	88.87%	3.21%
from other countries	4,572	9.70%	0.19%

The General Meeting is the supreme body of the Bank. The Regular General Meeting is convened at least once per year, and in no case later than four months from the last day of each accounting period. A quorum of the General Meeting shall be constituted if the attending shareholders hold shares the total nominal value of which exceeds 30% of the Bank's registered capital, provided that voting rights are attached thereto in accordance with generally binding legal regulations and except in cases specified in § 12, para.1 of the Articles of Association. The quorum is confirmed at the time of convening the General Meeting and always before each vote. The General Meeting shall approve resolutions by a majority of votes of the attending shareholders unless legal regulations or the Articles of Association require a qualified majority of votes. The General Meeting's order of business is governed by the agenda stated in the invitation to the General Meeting, which contains proposed resolutions and their justification and further information about the conditions of shareholders' participation, execution of shareholder rights, and the main information from the financial statements. At least 30 days prior to the General Meeting, the General Meeting shall be convened by means of a public notice calling the General Meeting, which shall be posted on the Bank's website [www.kb.cz](http://www.kb.cz) and on the notice board in the Bank's registered office, as well as published in the Mladá Fronta DNES daily newspaper. All documents relating to corporate governance are published on the Bank's website. Issues not included in the proposed agenda for the General Meeting are decided upon only with the attendance and consent of all the Bank's shareholders. The General Meeting shall be opened by a member of the Board of Directors authorised for this purpose by the Board of Directors or a person designated by the Board of Directors. This member of the Board of Directors shall also conduct the General Meeting until a Chairman of the General Meeting is elected.

Unless otherwise stipulated by law or the Articles of Association, all persons registered in the list of attending shareholders and present at the General Meeting at the time of calling a vote are entitled to vote. The sequence of voting corresponds to the order on the General Meeting's agenda. The casting of votes shall be carried out by means of ballots. Each CZK 100 of nominal share value represents one vote. Any proposal presented by the Board of Directors shall be voted upon first. Should such proposal of the Board of Directors be accepted by the required majority, other proposals or counter-proposals to this point shall not be voted upon. Other proposals or counter-proposals shall be voted upon in the sequence in which they have been presented. Should such a proposal or counter-proposal be approved in a vote by the General Meeting, other proposals or counter-proposals shall not be voted upon.

#### **The General Meeting has within its powers to:**

- a) decide upon changes to the Articles of Association, with the exception of a change in consequence of an increase in the registered capital by the authorised Board of Directors or a change made on the basis of other legal circumstances;
- b) decide upon a change in the amount of the registered capital, except that, unless it is reduced to cover a loss, the registered capital may be reduced only upon prior approval of the Czech National Bank;
- c) elect and remove members of the Supervisory Board; elect and remove members of the Audit Committee;
- d) approve the Board of Directors' reports regarding the Bank's business activities and the state of its property, at least once per accounting period;
- e) decide upon the possibility of setting off a monetary claim of the Bank against a claim to be used for payment of the issue price, including the draft of the relevant contract for set-off;
- f) decide upon a change in the class or type of the shares;
- g) decide to issue convertible or priority bonds of the Bank;
- h) decide to modify the rights attached to individual classes of the shares;
- i) approve the regular financial statements, extraordinary financial statements, consolidated financial statements and, as established by law, interim financial statements;
- j) decide upon distribution of profit or other funds of the Bank or coverage of a loss;
- k) approve the service contracts with the members of the Supervisory Board and of the Audit Committee;
- l) decide on transformation of the Bank, unless the act regulating transformations of companies and co-operatives establishes otherwise, provided that prior consent of the Czech National Bank has been given where so required by law;
- m) decide to wind up the Bank with the prior consent of the Czech National Bank;
- n) approve proposed distribution of the liquidation balance of the Bank's assets;
- o) decide to file for admitting the participation securities of the Bank to trading in the European regulated market or for excluding these securities from trading in the European regulated market;
- p) approve the transfer or pledging of an enterprise or such part thereof entailing a substantial change to the existing structure of the enterprise or a substantial change to the business activities of the Bank;
- q) charge the Board of Directors to decide upon an increase in the registered capital under the conditions specified by law;
- r) decide to acquire the Bank's shares into treasury in accordance with the applicable provisions of the Act on Business Corporations;
- s) decide upon elimination or restriction of the pre-emptive right to acquire convertible or priority bonds, elimination or restriction of the pre-emptive right to subscribe for new shares in accordance with the Act on Business Corporations;
- t) approve the acquisition or disposal of assets, when the law so requires;
- u) decide upon appointment of the auditor to make the statutory audit or to verify other documents if such appointment is required by legal regulations;
- v) convey principles and instructions to the Board of Directors of the Bank (with the exception of instructions regarding the business management of the Bank unless provided to the Board of Directors upon its request); and approve principles and convey instructions to the Supervisory Board (with the exception of instructions regarding the statutory duty to check the competence of the Board of Directors);
- w) provide its consent regarding a contract for settlement of a loss caused by a breach of the duty of due care on the part of a member of a body of the Bank;
- x) decide upon suspending the service of a member of a body of the Bank who declares a conflict of interest under the Act on Business Corporations, or prohibit a member of a body of the Bank from entering into a contract which is not in the Bank's interest;



- y) instruct the Supervisory Board to establish the ratio between the fixed and variable parts of a Board member's remuneration to be higher than 100%, while the overall variable part for any Board member shall not exceed 200% of the fixed part of his or her total remuneration;
- z) approve a maximum ratio between the fixed and variable parts of an employee's remuneration higher than 100% on the condition that the overall variable part for any individual may not exceed 200% of the fixed part of his or her total remuneration;
- aa) decide upon other matters which according to the legally binding legal regulations or the Articles of Association are a part of the powers of the General Meeting.

The results and information from the General Meeting are available on Komerční banka's website [www.kb.cz](http://www.kb.cz).

### Principle resolutions of Komerční banka's Annual General Meeting held in 2017

At the regular General Meeting held on 25 April 2017, 397 shareholders holding shares with nominal value representing 79.86% of the Bank's share capital were present in person or through their representatives.

The General Meeting approved the Board of Directors' report on the Bank's business activities and the state of its property for the year 2016 as well as the annual financial statements of Komerční banka for the year 2016, decided to distribute profit for 2016 in the total amount of CZK 14,119,191,681.91, and decided to pay out dividends in the amount of CZK 40 per share before tax. The Annual General Meeting also:

- approved the consolidated financial statements for the year 2016;
- elected Mr Laurent Goutard as a member of the Supervisory Board;
- elected Mr Petr Laube as a member of the Supervisory Board;
- elected Mr Jean-Luc André Joseph Parer as a member of the Supervisory Board;
- elected Mr Giovanni Luca Soma as a member of the Supervisory Board;
- elected Mr Petr Dvořák as a member of the Supervisory Board;
- elected Mr Pavel Jelínek as a member of the Supervisory Board;
- elected Mrs Miroslava Šmídová as a member of the Supervisory Board;
- elected Mr Giovanni Luca Soma as a member of the Audit Committee;
- elected Mr Petr Laube as a member of the Audit Committee;
- approved the service contracts with the members and the chairman of the Audit Committee;
- consented to acquisition into treasury of the Bank's ordinary shares with nominal value of CZK 100 under specified conditions;
- appointed the company Deloitte Audit s.r.o., with its registered office at Karolinská 654/2, 186 00 Prague 8 – Karlín, registration No. 49620592 as the Bank's external auditor for 2017 and the company Deloitte Audit s.r.o. with its registered office at Digital Park II, Einsteinova 23, Bratislava 851 01 as the auditor of KB's foreign branch in Slovakia.

## Additional information in accordance with § 118 (5), (i), (j) and (k) of the Act on Capital Market Undertakings

Komerční banka is not aware of any contracts made between its shareholders as a result of which the transferability of shares or of voting rights would become more complicated. The Bank has entered into no significant contracts which take effect, are altered or terminate if the person or entity in control of Komerční banka changes as a consequence of a takeover bid. Komerční banka has entered into no contract with a member of its Board of Directors or any employee stipulating an obligation for Komerční banka to perform in the event that such person would cease to serve as a member of the Board of Directors or cease to be employed in connection with a takeover bid. The Bank has not established any programmes enabling the members of the Board of Directors and employees of the Bank to acquire the Bank's securities, options on these securities or other rights under preferential conditions.

### Information about special rules on the revision of the Bank's Articles of Association

According to the Bank's Articles of Association, decisions on amendments to the Articles of Association are within the powers of the General Meeting. Proposed resolutions for amendments to the Articles of Association and their justification are provided in the invitation to the General Meeting. Proposed changes in the Articles of Association are available for shareholders' inspection at no charge at the Bank's headquarters and on its website for the period established for convening of the General Meeting. The Bank shall notify its shareholders of these rights in the invitation to the General Meeting.

If a shareholder wishes to raise counter-proposals to the proposed changes to the Articles of Association at the General Meeting, the shareholder is obliged to deliver the written wording of such proposal or counter-proposal to the Bank no later than five business days prior to the day of the General Meeting. The Board of Directors shall notify its shareholders of the wording of the counter-proposal along with its viewpoint with regard to it in the manner specified for the convening of the General Meeting.

Decisions on changes in the Articles of Association are made by the General Meeting and carried by two-thirds of those votes of the attending shareholders upon a proposal of the Board of Directors, of the Supervisory Board or of one or more shareholders in accordance with the Act on Business Corporations and the Articles of Association. Decisions on changes in the Articles of Association must be recorded by notarial deed containing the approved text of the wording of changes in the Articles of Association. Komerční banka is obliged to report to the Czech National Bank its intention to make changes in the Articles of Association relating to those particulars which must be stated in the Articles of Association based on a requirement set forth by law.

## Board of Directors

The Board of Directors is the corporate body which manages the Bank's activities. The Board of Directors is charged with business management, including ensuring the proper keeping of the Bank's accounting records, integration of the accounting system and financial reporting, reliability of financial and operating control, smooth conduct of activities and the Bank's operations on the financial market in compliance with the object and plan of its activities. The Board ensures consistent and effective implementation of the risk management, compliance and internal audit functions. The Board of Directors further ensures the creation of a comprehensive and adequate management and control system, ensures its compliance with legal regulations, and is responsible for its continuous functioning and effectiveness. The Board of Directors ensures the establishment and maintenance of the management and control system so as to ensure the adequacy of information and communication in conducting the Bank's operations.

The Board of Directors shall decide upon all matters concerning the Bank unless assigned to the competence of the General Meeting, the Supervisory Board or the Audit Committee by law or by the Articles of Association. The Board of Directors consists of six members, natural persons, who satisfy the conditions established in legal regulations for serving as a member of the Bank's Board of Directors and who are elected for four-year terms by an absolute majority of all Supervisory Board members at the recommendation of the Nominations Committee. The Nominations Committee ensures the trustworthiness, adequate professional qualifications and experience of the members of the Board of Directors. The professional qualifications, trustworthiness and experience of the members of the Bank's Board of Directors are assessed by the Czech National Bank.

In accordance with the requirement of the Czech National Bank, Komerční banka declares that the members of the Board of Directors of Komerční banka have not in the past 5 years been convicted of any criminal offence and that no charges, accusations or other sanctions have been brought against them by any regulatory body. No bankruptcy, receivership or liquidation has been declared in relation to the stated persons during the past 5 years.

In relation to his or her work in the Bank, no person with executive power has any conflict of interests between the duties of a person with executive power in the Bank and that person's private interests or other duties. Albert Le Dirac'h and Didier Colin signed employment contracts signed with Société Générale S.A. and they were delegated to serve as the Bank's directors.

### Method of performing acts in law on the Bank's behalf

The Board of Directors, as the Bank's authorised body, shall act on behalf of the Bank in all matters, either by all members of the Board of Directors jointly or by any two members jointly.

## Composition of the Board of Directors

### Jan Juchelka

Chairman of the Board of Directors (since 3 August 2017, previously a member of the Board of Directors from 1 July 2006, re-elected on 2 July 2010, membership terminated as of 31 July 2012)

### Didier Colin

Member of the Board of Directors (since 1 October 2017, previously a member of the Board of Directors from 9 October 2004, re-elected on 10 October 2008, membership terminated as of 31 December 2010)

### Vladimír Jeřábek

Member of the Board of Directors (since 1 June 2008, re-elected on 3 June 2016)

### Libor Löfler

Member of the Board of Directors (since 1 April 2015)

### Peter Palečka

Member of the Board of Directors (since 13 October 1999, re-elected on 9 October 2017)

### Jan Pokorný

Member of the Board of Directors (since 2 August 2016)

### Albert Le Dirac'h

Chairman of the Board of Directors (since 2 August 2013, membership terminated as of 2 August 2017)

### Jan Juchelka

A graduate of the Silesian University in Opava, he worked in the National Property Fund of the Czech Republic from 1995, and during 2002 to 2005 he was Chairman of its Executive Committee. From 1999 to 2006, he was a member of the Supervisory Board of Komerční banka. He joined Komerční banka in 2006, first as head of Prague's Corporate Banking Business Division and later that year he became a member of the Board of Directors responsible for managing Top Corporations and Investment Banking. From 2012, he worked in the Société Générale Headquarters in Corporate and Investment Banking as Managing Director, Head of Coverage with responsibility for corporate clients in the Central and Eastern European Region, Middle East, and Africa. He also worked as Senior Banker for the Central and Eastern European Region. KB's Board of Directors elected Mr Juchelka as Chairman of the Board of Directors and Chief Executive Office of Komerční banka with direct management competence for Human Resources, Internal Audit, and Marketing and Communications, and for Strategic Planning with effect from 3 August 2017. Mr Juchelka also holds the position of Chairman of the Supervisory Board of Modrá pyramida and is a member of the supervisory boards of SG Equipment Finance Czech Republic and Komerční pojišťovna.

### Vladimír Jeřábek

A graduate of VUT Technical University in Brno, Czech Republic, and from Nottingham Trent University, he has held the positions of economic director and member of the board of directors in several banking institutions and at Zetor, a.s., a producer of agricultural tractors. Upon his arrival to Komerční banka in 1998, Mr Jeřábek

was the regional manager responsible for the Brno region and later was in charge of Komerční banka's distribution channels. In February 2007, he was appointed Executive Director of the Distribution Network. The Supervisory Board elected Mr Jeřábek as a member of the Board of Directors in charge of Distribution with effect from 1 June 2008. He is responsible for the Bank's distribution network serving the Retail and Corporate segments and also for the alternative distribution channels such as internet banking and non-banking channels. Moreover, Mr Jeřábek is chairman of the supervisory board of KB Penzijní společnost and a member of the supervisory board of Modrá pyramida.

#### **Didier Colin**

A graduate in finance at Dauphine University in Paris and also City University of New York (MBA), he has many years' experience within Société Générale Group, where he started working in the early 1990s, in the Inspection arm. In 2000, he was promoted to Deputy Country Manager and subsequently to Country Manager for Canada. From this position, he moved into Komerční banka in 2004 as Member of the Board of Directors responsible for Risk Management. In 2011, he became Director for the European Region; as part of this function, he supervised Société Générale's activities in the Central and Eastern European Region. From 2013, he was deputy to the CEO of BRD Romania responsible for managing the bank's risk management. With effect from 1 October 2017, he was elected by the Supervisory Board as a Member of the Board of Directors of Komerční banka in charge of Risk Management. Mr Didier Colin is also a member of the supervisory board of SG Equipment Finance Czech Republic.

#### **Libor Löfler**

A graduate from the University of Economics, Prague, he has spent his entire professional career in the banking industry. Among other positions, he worked at the National Bank of Czechoslovakia, Investiční banka and Konsolidační banka in the areas of IT projects and financial management. During 1998 and 1999, he worked as the CEO of Konsolidační banka. Since 1999, he has been working for Komerční banka in the areas of finance and the financial group management. He served as Head of Financial Management between 2002 and 2006. From 2006 to 2010, he held the position of Vice-Chairman of Modrá pyramida in charge of credit approval, IT and projects. From 2010 to 2012, he was Deputy Senior Executive Director for Strategy and Finance of Komerční banka. In 2012, he took over as the Executive Director of Strategy and Finance. With effect from 1 April 2015, he was elected by the Supervisory Board as a Member of the Board of Directors of Komerční banka in charge of Strategy and Finance, Transaction and Payment Services, Investment Banking Services, Support Services, Information Technology, Organisation and Change Management and Information Management. Mr Löfler is also a member of the supervisory boards of Modrá pyramida, ESSOX, Komerční pojišťovna and PSA Finance Slovakia. Moreover, Mr Löfler is Chairman of the Client Board of VISA Czech Republic.

#### **Peter Palečka**

A graduate of the University of Economics, Bratislava, from 1982 to 1988, Mr Palečka worked in foreign trade enterprises. Between 1989 and 1992, he worked at the Federal Ministry of Foreign Trade of the Czech and Slovak Federative Republic. From 1992 to 1994, he was the Permanent Representative of the Czech and Slovak Federative Republic and then of the Czech Republic to GATT, and from 1995 to 1998 he was the Permanent Representative of

the Czech Republic to the World Trade Organization. He joined Komerční banka in 1998 as the director for Strategy. In October 1999, he was elected a member and in April 2000 Vice-Chairman of Komerční banka's Board of Directors. On 5 October 2001, he was re-elected as a member and Vice-Chairman of the Board of Directors. At present, he is a member of the Board of Directors and Corporate Secretary. Mr Palečka is also vice-chairman of the supervisory board and chairman of the audit committee of Modrá pyramida.

#### **Jan Pokorný**

A graduate of the Czech Technical University in Prague, Faculty of Mechanical Engineering, and of post-graduate studies at the University of Economics, Prague, Economics and Management Programme, he received in 2003 the title Executive MBA from the University of Chicago Graduate School of Business. He has been working in Komerční banka Group since 1991. He initially worked in the capital markets area and then was active in KB's London representation, where he focused on investment banking. After returning to the Czech Republic, he held the position of Vice-Chairman of the Board of Investiční kapitálová společnost Komerční banky. During 2003 to 2005, he was Executive Director of the distribution network. Between 2006 and 2009, he was First Vice President for Central and Eastern Europe in SG Private Banking SA, Switzerland. In 2010, he was appointed Chairman of the Board of Directors and CEO of Modrá pyramida stavební spořitelna. As of 1 August 2015, he was appointed Executive Director for Komerční banka's Structured Financing. Effective from 2 August 2016, he was appointed by the Supervisory Board as Member of the Board of Directors responsible for the Structured Financing, Investment Banking and Top Corporations departments. Jan Pokorný is also a member of the Supervisory Board of KB Penzijní společnost.

### **Activity report of the Board of Directors**

The Board of Directors shall convene at its regular, periodic meetings, usually once every two weeks. Meetings shall be convened and presided over by the Chairman of the Board of Directors or, in his or her absence, by a member of the Board of Directors authorised to do so by the Board of Directors. Should it not be possible to hold a Board of Directors' meeting, a decision may be adopted by voting remotely in accordance with the Articles of Association.

The Board of Directors met at 20 regular and 1 extraordinary meetings in 2017 and held 9 remote votes in accordance with the Bank's Articles of Association. The average meeting length was 3 hours, with an average participation of 94%. A quorum of the Board of Directors shall be constituted if an absolute majority of the Board members are present. Resolutions of the Board of Directors shall be adopted by an absolute majority of members of the Board of Directors present, except for the election of the Chairman of the Board of Directors, who shall be elected by an absolute majority of all members of the Board of Directors.

In 2017, the Board of Directors discussed the annual financial results of KB Group for the year 2016, as well as KB's consolidated financial statements, separate financial statements, and their footnotes as of 31 December 2016 and prepared under International Financial Reporting Standards (IFRS). The Board of Directors submitted these statements to the Supervisory Board for review and then to the General Meeting for approval. At the

same time, it submitted to the Supervisory Board for review the proposed profit distribution for 2016, which was subsequently approved by the General Meeting.

The Board of Directors also discussed additional proposals for the General Meeting, in particular the Report of the Board of Directors on the Bank's Business Activities, the Report on Relations among Related Entities, the conditions for acquiring the Bank's own shares, the proposal for appointment of the external auditor and other matters falling within the competence of the General Meeting. Moreover, it approved the Bank's Annual Report for 2016 and Half-yearly Report for 2017. It also was presented a contract with an external auditor and a document on the providing of non-audit services.

The Board of Directors regularly reviewed the quarterly financial results of KB Group. It continuously evaluated the Bank's capital adequacy and approved the Internal Capital Adequacy Assessment Process (ICAAP) submitted to the Czech National Bank on the basis of Decree No. 163/2014 Coll. on the performance of the activity of banks, credit unions and investment firms. On the basis of the test of solvency, it decided on the payment of dividends for the year 2016. It also discussed capital management policy, particularly with respect to new regulatory requirements on banks' capital requirements. In this connection, it approved a dividend policy in relation to the profit for the year 2017. Moreover, the Board of Directors discussed reports on the market situation, the development of structural risks for each quarter of the year, as well as the KB Group budget for 2017. In relation to the strengthening of capital adequacy, it was decided that the subordinated debt from the parent company Société Générale would be accepted.

As part of its activities, the Board of Directors regularly assessed all of the Bank's risks. In the field of risk management, it discussed the reports on the development of market and capital risks and the development of lending on capital markets on a monthly basis. At the same time, it discussed and approved limits on market risks, and, within its competence, approved loans to economically connected groups above a specified limit. It also approved the strategy for dealing with clients assigned to the administration of the Asset Valuation and Recovery Department. Moreover, it approved competences in providing loans and the document on the level of so-called risk appetite. The Board also confirmed the need to comply with the CNB's recommendations on mortgages. In the operational risks area, the Board of Directors discussed the regular quarterly reports and was presented with a fraud detection system. The Board of Directors approved an IT security strategy for the period 2017–2019 as well as an information management strategy for the period 2017–2019. The Board took under advisement the presentation on the field of security.

Compliance risks were evaluated both in the yearly report for 2016 and in quarterly reports on the development of these risks. At the same time, the Board of Directors approved the 2016 annual evaluation report on KB's system against money laundering and the financing of terrorism as well as assessment of the money laundering risk within the Bank. It was informed on new regulations impacting the Bank and needing to be implemented as well as their expected development in the next year. The Board of Directors decided the Bank would commit to the Standard of the Czech Banking Association regulating PRIBOR – Code of Conduct. Additionally, an action plan was

adopted for implementing the Bank's culture and employee behaviour programme. The Board of Directors also strengthened the Bank's ability to withstand a possible deteriorating situation by preparing a range of possible remedial measures and approving the so-called Group's recovery plan for 2017 (in accordance with Directive No. 2014/59/EU and with Act No. 374/2015 on recovery procedures), which was subsequently submitted to the CNB. The Board of Directors updated the list of those employees whose professional activities have a material impact on the Bank's risk profile. The Board of Directors has established a new position of Data Protection Officer for data protection. It also conducted an annual evaluation as to implementation of the remuneration principles.

In the area of Internal Audit, the Board of Directors discussed a number of documents. It discussed reports on the status of corrective measures as of the end of each quarter of 2017 and was regularly informed of all actions carried out by Internal Audit. Management of corrective measures and their proper implementation were fully addressed. It also discussed the results of risk mapping, based upon which the annual internal audit plan for 2018 and a strategic plan for the period 2018–2022 were established and approved. It discussed, too, measures (and status of their implementation) taken in accordance with the findings presented in the Constructive Service Letter which had been prepared and presented to the Board of Directors by the external auditor Deloitte Audit, s.r.o. Also the Internal Audit Strategy and the Quality Assurance and Improvement Programme were submitted to the Board of Directors.

The Board of Directors evaluated the overall functioning and efficiency of the Bank's management and control system, which is functional and effective. Furthermore, the Board of Directors addressed reports on the handling of complaints and claims (including complaints sent to the Bank's Ombudsman). The Board of Directors also discussed the Bank's strategic direction for the next year.

The Board of Directors discussed all issues falling within its competence as the sole shareholder in performing duties of the General Meeting in KB Group's subsidiaries, such as approving financial statements, election and remuneration of members of company bodies, amendments to the articles of association, appointment of auditors and other matters.

As part of its activities, the Board of Directors decided on many other issues related to organisational structure, approving directives within various arms or granting powers of attorney. The Board of Directors approved the management and control function department and the related division of ALM & Treasury. Further steps were taken in the implementation plan for the utilisation of buildings for KB's head office.

The Board of Directors, acting as founder, also discussed the orientation of Komerční banka's Jistota Foundation and was informed of the Foundation's activities. The Board of Directors approved the financial contribution for the Foundation's activities and a contribution to the budget of the Debt Advisory Centre, with which it signed a co-operation agreement for the next period 2018–2022. It discussed and approved contractual documentation related to co-operation with the European Investment Bank, Council of Europe Development Bank and European Investment Fund. The Board of Directors decided to make partial changes to



the partnership with Worldline SA/NV in the area of card payments (merchant acquiring). The Board concluded new agreements with VISA and MasterCard.

Great attention was further devoted to corporate governance issues in the context of new developments in Czech law and in the context of corporate governance adopted by the parent company Société Générale. The Board of Directors evaluated its own activities in 2016 and submitted its report on those activities for this period to the Supervisory Board. The Board of Directors also approved the distribution of competences among individual members and in relation to the changes in membership, the Board of Directors elected a new Chairman.

### Committees established by the Board of Directors

The Board of Directors establishes specialised committees to which it delegates authority for making decisions in the various activity areas assigned to them. It authorises them to co-ordinate selected activities and to exchange information and opinions. The Board of Directors approves the statutes of these committees, while their members are appointed by the CEO. These committees include the following:

#### Project Management Committee (PMC)

The Project Management Committee makes and proposes decisions regarding KB's development activities and their prioritisation (KB's Project Plan), including to initiate, change or terminate important projects, as well as to measure and evaluate projects' contributions. It considers the material content of important projects and their links as well as their use of financial and non-financial resources. Each member of the committee has one vote. If a consensus is not reached, the committee acts based on the decision of its chairperson.

Members	Position
Jan JUCHELKA	Chairman of the Board of Directors, Chief Executive Officer
Libor LÖFLER	Member of the Board of Directors, Senior Executive Director, Chief Administrative Officer
Vladimír JEŘÁBEK	Member of the Board of Directors, Senior Executive Director, Distribution – Retail and Corporate
Jan POKORNÝ	Member of the Board of Directors, Senior Executive Director, Structured Finance (SFA), Top Corporations (TCA), Investment Banking (IB))
Didier COLIN	Member of the Board of Directors, Senior Executive Director, Risk Management
Karel BERAN	Executive Director, Project Organisation and Management
Patrice BEGUE	Executive Director, Marketing and Communication
Jiří ŠPERL	Executive Director, Strategy and Finance
Antonín PRELL	Executive Director, Information Technology
Secretary of the Committee: Aleš VEJVODA	

#### Watch Provision List Committee (WPLC)

The Watch Provision List Committee makes and proposes decisions regarding provisions. The Committee is responsible for clients' inclusion into or removal from the Watch Provision List, used for rating clients according to the CNB classification system and for determining the appropriate amount of provisions. The Committee decides on three levels. Each member of the WPLC expresses an opinion on proposals regarding each case discussed. A consensus of all regular members at the respective level is sought so that the final decision assumed by that level reflects the joint position of the risk management and business units. If a consensus is not reached (i.e. at least one of the regular members does not concur), then the case is moved up to the next WPLC level. If within WPLC Level 3 a consensus is not reached, then the final decision is made by the Chief Executive Officer. A higher level WPLC is entitled to review and change any decision of a lower level WPLC.

Members – LEVEL 3	Position
Jan JUCHELKA	Chairman of the Board of Directors, Chief Executive Officer
Didier COLIN	Member of the Board of Directors, Senior Executive Director, Risk Management
Jan POKORNÝ	Member of the Board of Directors, Senior Executive Director, SFA, TCA, IB
Vladimír JEŘÁBEK	Member of the Board of Directors, Senior Executive Director, Distribution – Retail and Corporate
Jiří ŠPERL	Executive Director, Strategy and Finance

Members – LEVEL 2	Position
Didier COLIN	Member of the Board of Directors, Senior Executive Director, Risk Management
Dušan ORDELT	Deputy Executive Director, Risk Management, Manager of Credit Risk Approval
Lukáš HORÁČEK	Manager of Loan Consulting
Radek TRACHTA	Executive Director, Top Corporations
Agness HENN	Deputy Manager of Corporate Credit Portfolio Management

Members – LEVEL 1 Pilsen	Position
Alena VACÍKOVÁ	Manager of Regional Credit Risk Assessment
Martin ČERNÝ	Head of Loan Portfolio Management – Corporate
Petr PARUŽEK	Head of Loan Portfolio Management – Corporate
Dana HNOJSKÁ	Head of Loan Portfolio Management – Retail
Alena KOTKOVÁ	Head of Loan Portfolio Management – Retail

Members –LEVEL 1 Hradec Králové	Position
Jiří DĚDEK	Manager of Regional Credit Risk Assessment
Alena SLÍPKOVÁ	Head of Loan Portfolio Management – Corporate
Vladislav BAREŠ	Head of Loan Portfolio Management – Corporate
Michal VOŠVRDA	Head of Loan Portfolio Management – Retail
Lenka KALINOVÁ	Head of Loan Portfolio Management – Retail

Members – L LEVEL 1 Ostrava	Position
Lubomír ANDRLA	Manager of Regional Credit Risk Assessment
Miroslav SKLENÁŘ	Head of Loan Portfolio Management – Corporate
Milena VESELÁ	Head of Loan Portfolio Management – Corporate
Renata TOBIÁŠOVÁ	Head of Loan Portfolio Management – Retail
Libor LEGNER	Head of Loan Portfolio Management – Retail

Members – LEVEL 1 Brno	Position
Markéta RIESNEROVÁ	Manager of Regional Credit Risk Assessment
Petr LUKÁŠEK	Head of Loan Portfolio Management – Corporate
Vladimír MINICH	Head of Loan Portfolio Management – Corporate
Vlastimil DVOŘÁK	Head of Loan Portfolio Management – Retail
Ilona JARŮŠKOVÁ	Head of Loan Portfolio Management – Retail

Members – LEVEL 1 Prague	Position
Petr PLAŠIL	Regional Credit Risk Assessment Manager
Stanislav CHALUPA	Head of Loan Portfolio Management – Corporate
Kateřina MIKULÍKOVÁ	Head of Loan Portfolio Management – Corporate
Jana PURGEROVÁ	Head of Loan Portfolio Management – Retail
Secretary of the Committee: Blanka NEUHÄUSEL KOLÁŘOVÁ	

### Assets and Liabilities Committee (ALCO)

The Assets and Liabilities Committee makes and proposes decisions regarding asset and liability management in KB. Each member of the committee has one vote. If a consensus is not reached, the committee acts based upon a simple majority of those members present.

Members	Position
Libor LÖFLER	Member of the Board of Directors, Senior Executive Director, Chief Administrative Officer
Jiří ŠPERL	Executive Director, Strategy and Finance
Alan COQ	Capital Markets Risk Manager
Slawomir KOMONSKI	Executive Director, Investment Banking
Ivan VARGA	Manager of Trading and Institutional Sales
Tomáš FUCHS	Manager of & Treasury
Marek DOTLAČIL	ALM Manager
Secretary of the Committee: Marek DOTLAČIL	

### Commercial Committee (CC)

The Commercial Committee makes and proposes decisions in the area of business offers, business strategy and tactics, rates, prices and conditions. It also provides its opinions on selected new products in accordance with its statutes. A consensus of all members is sought. If a consensus is not reached, the committee acts based upon a simple majority of the members present, and, in the event of a tie, the chairperson has the deciding vote.

Members	Position
Jan JUCHELKA	Chairman of the Board of Directors, Chief Executive Officer
Jan POKORNÝ	Member of the Board of Directors, Senior Executive Director, TCA, SFA, IB
Libor LÖFLER	Member of the Board of Directors, Senior Executive Director, Chief Administrative Officer
Vladimír JEŘÁBEK	Member of the Board of Directors, Senior Executive Director, Distribution – Retail and Corporate
Patrice BEGUE	Executive Director, Marketing and Communication
Yann DUMONTHEIL	Executive Director, Retail Banking
Jitka HAUBOVÁ	Executive Director, Corporate Banking
Jiří ŠPERL	Executive Director, Strategy and Finance
Jana ŠVÁBENSKÁ	Executive Director, Transaction and Payment Services
Secretary of the Committee: Klára LOUDOVÁ	

### Credit Risk Management Committee (CRMC)

The Credit Risk Management Committee makes and proposes decisions regarding credit risk management principles and their implementation. A decision may be taken if at least 50% of all members are present. A consensus of all members is sought. If a consensus is not reached, the committee acts based upon a simple majority of those members present having voting rights. If a majority is not reached, the decision is moved up to the Board of Directors.

Members	Position
Didier COLIN	Member of the Board of Directors, Senior Executive Director, Risk Management
Jan ŠEVČÍK	Deputy Senior Executive Director, Risk Management
Vladimír JEŘÁBEK	Member of the Board of Directors, Senior Executive Director, Distribution – Retail and Corporate
Patrice BEGUE	Executive Director, Marketing and Communication
Jan POKORNÝ	Member of the Board of Directors, Senior Executive Director, SFA, TCA, IB
Jiří ŠPERL	Executive Director, Strategy and Finance
Antonín PRELL	Executive Director, Information Technology
Tomáš DOLEŽAL	Manager of Operational Risk
Matěj STRÁNSKÝ	Supervision and Measurement Manager
Secretary of the Committee: Milada ČERNÁ	

### Investment Banking New Product Committee (IB NPC)

The Investment Banking New Product Committee makes and proposes decisions on new investment banking products in accordance with its statutes. Its activities include assessing the risks related to new or significantly altered products, establishing the conditions for launching products and monitoring that these conditions are met. A consensus of all members is sought. If a consensus is not reached, the decision is made by the Chief Executive Officer.

Members	Position
Didier COLIN	Member of the Board of Directors, Senior Executive Director, Risk Management
Jan POKORNÝ	Member of the Board of Directors, Senior Executive Director, SFA, TCA, IB
Alan COQ	Manager of Capital Markets Risks
Dušan ORDELT	Deputy Executive Director, Risk Management, Manager of Credit Risk Approval
Norbert VANĚK	Manager of Investment Banking Services
Tomáš HORA	Head of Legal – Investment Products
Petr PINKAS	Manager of IT Application Development
Tomáš CHOUTKA	Manager of Compliance
Jakub DOSTÁLEK	Manager of Tax
Tomáš FUCHS	Manager of ALM
Tomáš DOLEŽAL	Manager of Operational Risk
Ida BALUSKOVÁ	Manager of Accounting and Reporting
Secretary of the Committee: Norbert VANĚK	

### Corporate and Retail Banking New Product Committee (CRB NPC)

The Corporate and Retail Banking New Product Committee makes and proposes decisions on new products other than investment banking products in accordance with its statutes. Its activities include assessing the risks related to new or significantly altered products, establishing the conditions for launching products and monitoring that these conditions are met. A consensus of all members is sought. If a consensus is not reached, the decision is made by the Chief Executive Officer.

Members	Position
Jan ŠEVČÍK	Deputy Senior Executive Director, Risk Management
Patrice BEGUE	Executive Director, Marketing and Communication
Tomáš DOLEŽAL	Manager of Operational Risk
Yann DUMONTHEIL	Executive Director, Retail Banking
Jitka HAUBOVÁ	Executive Director, Corporate Banking
Antonín PRELL	Executive Director, Information Technology
Leoš SOUČEK	Deputy Executive Director, Marketing and Communication, Segment and Products Manager
Robert ŠÁROVEC	Deputy Executive Director, Transaction and Payment Services
František KUBALA	Deputy Executive Director, Project Organisation and Management
Matěj STRANSKÝ	Manager of Supervision and Risk Measurement
Etienne LOULERGUE	Deputy Executive Director, Strategy and Finance
Radek TRACHTA	Executive Director, Top corporations
Secretary of the Committee: Marcela KRÁLOVÁ	

### Operational Risk Committee (ORC)

The Operational Risk Committee makes and proposes decisions regarding operational risks and safety. For a decision to be taken, at least 50% of all members must be present. A decision must be adopted by a majority of votes of those members present. If a consensus is not reached, the decision is adopted at the Board of Directors level.

Members	Position
Peter PALEČKA	Member of the Board of Directors, Senior Executive Director, Corporate Secretary
Tomáš DOLEŽAL	Manager of Operational Risk
Tomáš CHOUTKA	Manager of Compliance
Martin ZEMEK	Manager of Regional Support Services Management
Martin PARUCH	Deputy Senior Executive Director, Distribution – Retail and Corporate, Manager of Network Management Support
Etienne LOULERGUE	Deputy Executive Director, Strategy and Finance
Robert ŠÁROVEC	Deputy Executive Director, Transaction and Payment Services
Pavel POLÁK	Manager of IT Security
Jan ŠEVČÍK	Deputy Senior Executive Director, Risk Management
David KUBĚJ	Manager of Global Strategy and Development
Denisa SLÁDKOVÁ	Manager of HR Services Centre
Martin BERDYCH	Manager of Legal Services
Zuzana MELICHAROVÁ	Head of Top Corporations Business Divisions Support
Aleš VEJVODA	Manager of Project Portfolio Management
Bohumil ČUČELA	Deputy Executive Director, Internal Audit in KB and CEN region
Leoš SOUČEK	Deputy Executive Director, Marketing and Communication, Segment and Products Manager
Norbert VANĚK	Manager of Investment Banking Services
Petr NOVÁK	Executive Director, Information Management
Secretary of the committee: Dušan PAMĚTICKÝ	

### Information about special rules for the election and recall of members of the Board of Directors

Members of the Board of Directors of Komerční banka are elected by the Supervisory Board upon nomination by its Nominations Committee. A nominee must receive an absolute majority of votes of all Supervisory Board members. Members of the Board of Directors are elected to terms of four years. Only persons fulfilling the conditions for serving as a member of a Board of Directors as specified by the Civil Code, Act on Business Corporations and Banking Act may become members of the Board of Directors. The Nominations Committee ensures the trustworthiness, adequate professional qualifications and experience of the members of the Board of Directors. The Nominations Committee also assesses the balance of competences and experience as well as diversity in the Board's overall composition. The professional qualifications, trustworthiness and experience of the members of the Board of Directors are assessed by the Czech National Bank.

The Supervisory Board has the right to decide at any time to recall a member of the Board of Directors. Such decision is carried if approved by an absolute majority of its members. The Supervisory Board's decision is based on a proposal from the Supervisory Board's Nominations Committee.

### Information about special competences of the Board of Directors under the law regulating legal relations of corporations and co-operatives

The Board of Directors of Komerční banka is the corporate body that decides upon all matters concerning the Bank with the exception of those matters falling within the powers of the General Meeting or of the Supervisory Board.

#### It is within the Board of Directors' exclusive competences to:

- a) convene the General Meeting and implement its resolutions;
- b) submit to the General Meeting for its approval the annual, extraordinary and consolidated financial statements and the interim financial statements along with a proposal for the distribution of profit (which must be available to the shareholders for inspection at least 30 days prior to the date of the General Meeting) or a proposal for coverage of a loss;
- c) submit to the General Meeting proposals for amendments to and changes of the Articles of Association as well as proposals for increasing or decreasing the Bank's registered capital;
- d) submit to the General Meeting a report on the Bank's business activities and on the state of the Bank's property at least once for each accounting period, as well as the annual report;
- e) decide upon granting and revoking powers of procuration;
- f) decide upon the appointment, removal and compensation of selected managers of the Bank;
- g) approve acts in connection with the realisation of security instruments for the Bank's claims whose price exceeded CZK 100,000,000 as of the date of the claim's origin if the presumed realisation price thereof is lower than 50% of the security instrument's price ascertained upon entering into the loan agreement;
- h) submit to the Supervisory Board for its information quarterly and half-yearly financial statements;
- i) decide upon acts which are beyond the scope of the Bank's usual business relationships;
- j) define and periodically evaluate the Bank's overall strategy, including the setting of the principles and targets for its fulfilment and ensuring the continued and effective operation of the internal control system;
- k) approve the Bank's annual plans and budgets;
- l) enter into a contract with an auditor for performing the statutory audit or, as the case may be, for the provision of additional services;
- m) inform the Supervisory Board of the General Meeting date no later than within the period specified by the Act on Business Corporations for the General Meeting to be convened;
- n) decide upon the issue of bonds of the Bank with the exception of decisions on the issue of bonds for which the decision of the General Meeting is required by law;
- o) decide upon an increase in the registered capital if so authorised by the General Meeting;
- p) enter into collective agreements;

- q) decide upon providing loans or securing debts to persons or entities having a special relationship to the Bank pursuant to the Banking Act;
- r) approve the charter and subject of the risk management functions, compliance functions and internal audit functions, as well as the strategic and periodic plan of internal audit;
- s) decide about paying out a share in profit based upon fulfilment of conditions established by generally binding legal regulations;
- t) approve and regularly evaluate the security principles of the Bank, including the security principles for information systems;
- u) decide upon establishing other funds and the rules governing the creation and usage thereof;
- v) prepare the report on relations among related entities pursuant to the Act on Business Corporations;
- w) approve and regularly evaluate the Bank's organisational structure so that it is functional and efficient, including segregation of duties and preventing potential conflicts of interest;
- x) approve the principles of the personnel and remuneration policy;
- y) evaluate the overall functioning and effectiveness of the management and control system at least once annually;
- z) approve and regularly evaluate the risk management strategy, the strategy relating to the capital and to capital ratios, the strategy for the information and communication system's development, and the strategy for human resources management;
- aa) approve and regularly evaluate the principles of the internal control system, including principles aiming to prevent the occurrence of any possible conflict of interest and principles related to compliance and internal audit and security policies; and
- bb) discuss the audit report with the auditor.

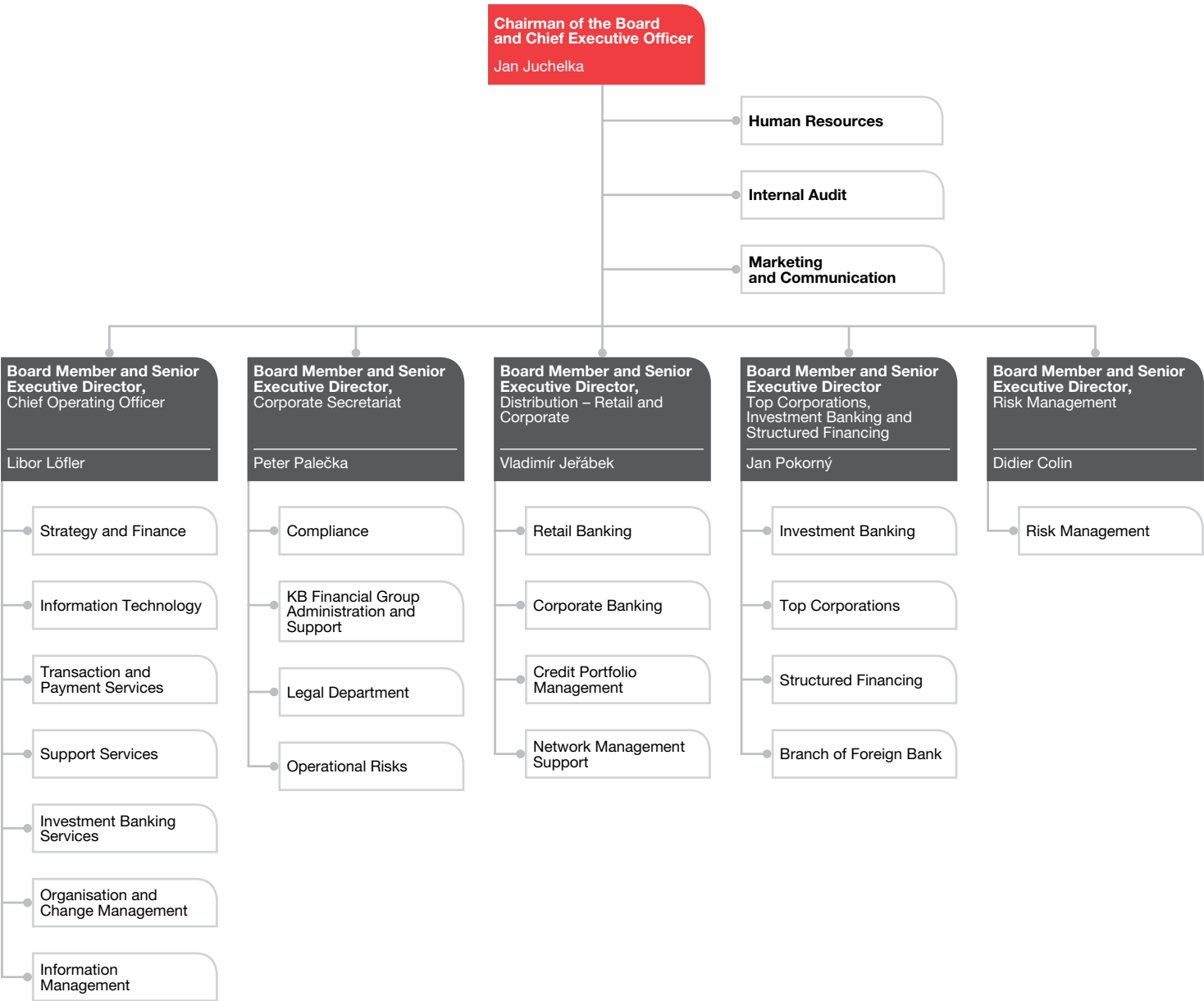
#### In addition to the aforementioned, the Board of Directors shall in particular:

- a) manage the activities of the Bank and conduct its business affairs;
- b) ensure proper conduct of the Bank's accounting, including the proper administrative and accounting processes;
- c) exercise employer's rights;
- d) exercise rights in respect to the Bank's property interests flowing from the Bank's ownership holdings;
- e) approve the acquisition or disposal of the Bank's fixed assets exceeding CZK 30,000,000 in value as a single case or as a total of related cases; and
- f) approve the business continuity plan.

The Board of Directors was not authorised to make a decision on increasing registered capital. Based on the consent of the General Meeting held on 25 April 2017, Komerční banka was authorised to acquire its ordinary shares into treasury. The conditions and information on the acquisition of its own shares are provided in the Acquisition of Treasury Shares chapter of this annual report.



Organisational chart of Komerční banka  
(as of 31 December 2017)



## Supervisory Board

The Supervisory Board is the supervisory authority of the Bank. It supervises the exercise of the Board of Directors' powers, the conduct of the Bank's business activities and the effectiveness and efficiency of the Bank's management and control system as a whole.

The Supervisory Board consists of nine members, who are individuals meeting the statutory requirements for becoming a member of the Bank's Supervisory Board and were elected by the General Meeting to four-year terms.

In accordance with the requirement of the Czech National Bank, Komerční banka declares that the members of the Board of Directors of Komerční banka have not in the past 5 years been convicted of any criminal offence and that no charges, accusations or other sanctions have been filed against them by a regulatory authority, except for the member of the Supervisory Board Giovanni Luca Soma, who was fined EUR 15,000 by the Bank of Italy as a member of the Executive Board of Fidelity for deficiencies in control and organisation to ensure transparency of client conditions. No bankruptcy, receivership or liquidation was declared in relation to the stated persons in the past 5 years.

### Composition of the Supervisory Board

#### Jean-Luc Parer

Chairman of the Supervisory Board (appointed as a substitute member of the Supervisory Board from 27 September 2012 until 24 April 2013 and thereafter elected by the General Meeting since 25 April 2013; elected Chairman as from 1 May 2013 and re-elected from 2 May 2017)

#### Giovanni Luca Soma

Vice-Chairman of the Supervisory Board (since 1 May 2013 and re-elected from 2 May 2017)

#### Petr Dvořák

Independent member of the Supervisory Board (since 2 June 2017)

#### Laurent Goutard

Member of the Supervisory Board (since 1 May 2013, re-elected from 2 May 2017)

#### Pavel Jelínek

Member of the Supervisory Board, employee representative (since 1 June 2013, re-elected from 2 June 2017)

#### Bořivoj Kačena

Independent member of the Supervisory Board (since 29 April 2008, re-elected on 30 April 2012 and on 1 May 2016)

#### Petr Laube

Independent member of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005, on 30 April 2009, on 1 May 2013 and on 2 May 2017)

#### Sylvie Rémond

Member of the Supervisory Board (since 23 April 2015)

#### Miroslava Šmídová

Member of the Supervisory Board, employee representative (since 2 June 2017)

#### Dana Neubauerová

Member of the Supervisory Board elected by KB's employees (since 29 May 2009, re-elected on 1 June 2013, membership terminated as of 1 June 2017)

#### Karel Přibíl

Member of the Supervisory Board elected by KB's employees (since 29 May 2009, re-elected on 1 June 2013, membership terminated as of 1 June 2017)

#### Jean-Luc Parer

A graduate of the Business School HEC Paris and a Master's Graduate of Law, he began working at Société Générale in 1981 in the Inspection Department. From 1991 to 2001, he was head of structured financing within the Investment Banking Division. From 2001 to 2003, he participated in the development of the Debt Finance Department, and from 2003 to 2005 he was responsible for supervising activities in the debt capital markets. In 2005, he became Deputy Director of Debt Finance, and in 2008 he was appointed Director of Capital Markets and Finance. In 2009, he became Director of Global Finance. In 2012, he became a member of the Executive Committee of the Société Générale Group, serving as head of the International Banking Division and, since 2013, head of the International Banking, Financial Services and Insurance Industry Division. Since October 2017, he has been an advisor to SG executive management. Since 2012, he has also been a member of the Supervisory Board of Komerční banka, and, since 2013, he has been its Chairman.

#### Giovanni Luca Soma

An MBA graduate of the University of Turin, Italy, and a graduate of LUISS University with a degree in business economics, he also holds qualifications to work as a certified auditor and certified public accountant. From 1984 to 1989, he was the manager of Arthur Young Consulting in Rome, Italy. From 1989 to 1994, he worked with Deloitte & Touche Consulting in Milan, Italy. During 1994–1997, he served as Sales and International Services Director of Hyperion Software Inc. Between 1997 and 1998, he served as managing director of GE Capital Insurance and subsequently, during 1998–1999, as Corporate Sales Director for Italy in GE Capital. From 1999 to 2000, he served as CEO of Dial Italia (Barclays Group). During 2000–2005, he served as CEO of ALD Automotive Italy; 2005–2007 as Chairman of ANIASA, the Italian Association of Automotive Leasing and Services Providers; 2006–2008 as Group Regional Director and Deputy CEO of ALD International Paris; and 2008–2011 as CEO of ALD International Paris in France. Between December 2012 and September 2013, he was Deputy Head of the International Retail Banking Department and became a member of the Group Management Committee of Société Générale. He served as CEO of SG Consumer Finance, France (from 2010) and Deputy Head of IBFS, International Banking and Financial Services (from December 2012). Since October 2017, he has been a manager of the Business Unit Europe within SG International Retail Banking. Since 2013, he has been a member and Vice-Chairman of the Supervisory Board of Komerční banka.

**Petr Dvořák**

A graduate of the University of Economics in Prague (VŠE), where he completed his PhD in 2003 and was named associate professor of finance in 2005. He has been active at VŠE throughout his entire professional career, in 1984–1990 within the Finance and Credit Department, and from 1990 to the present within the Banking and Insurance Department, which he headed during 1994–1998. From 2006–2014, he was also Dean of the Faculty of Finance and Accounting, and, since 2014, he has been Vice-Rector for Academic Affairs. He is a member of several scientific and editorial boards and an author of numerous publications. Since 2017, he has been a member of the Supervisory Board of Komerční banka and chairman of the Audit Committee of Modrá pyramida.

**Laurent Goutard**

A graduate of four-year economics studies at the University of Paris-Dauphine and of the Paris Institute of Political Studies, faculty of public services, with a major in economics, he joined Société Générale in 1986, working first at the General Inspection and then, between 1993 and 1996, as Deputy Managing Director for Large Corporations at the Paris–Opera Branch. During 1996–1998, he was Director of the Corporate Banking Division on the French territory. From 1998 to June 2004, he was a member of the Board of Directors and Chief Executive Officer, later Chairman of the Board of Directors of Société Générale Marocaine de Banques. In 2004, he became Vice-Chairman of the Board of Directors and, in 2005, Chairman of the Board of Directors and CEO of Komerční banka. He served in that position until 2009, when he became French Network Director and Delegated Director for Retail Banking of Société Générale in France. Since 2011, he has served as French Network Director and Director for Retail Banking of Société Générale in France. He has been a member of the Supervisory Board of Komerční banka since 2013.

**Pavel Jelínek**

Having completed studies at the Secondary School of Economics in Chrudim, he began working in Komerční banka in 1993 in various positions in cash processing (as a warden, ATM operator, cashier, deputy manager of cash section). Beginning in 2002, he was commercial clerk, and later he was a relationship manager for individuals, a relationship manager for small businesses and a team leader. Until the end of 2013, he was a relationship manager for top small business clients, and, since 2014, he has been a relationship manager for corporations. He has been a member of trade unions at KB since joining the Bank. Since 1994, he has represented employees as chairman of the union's local unit in Pardubice, and at the same time he has been a deputy chairman of the all-company committee of trade unions at KB. Since 2011, he has been a member of the union's negotiating team for collective negotiation with the employer. Since 2013, he has been a member of the Supervisory Board of Komerční banka.

**Bořivoj Kačena**

A graduate of the Czech Technical University in Prague (Faculty of Civil Engineering), he started working in 1966 for Stavby silnic a železnic, n. p. (SSŽ), where he held various positions. From 1978, he worked in SSŽ as director of its branch office 4, and from 1983 as director of the organisation "Investor of Transport Construction" for metro and urban road construction within the Prague Public Transit Company. He became director of the state enterprise SSŽ in November 1988 and its chief executive officer and Chairman of the Board of Directors in 1992. From 2007 to

April 2008, he was the Chairman of the Board of Directors of SSŽ. Since 2008, he has been a member of the Supervisory Board of Komerční banka.

**Petr Laube**

A graduate of the University of Economics, Prague, specialised in foreign trade, he worked during 1974 to 1991 at Polytechna, a foreign trade company for technical co-operation. From 1991 to 1992, he was at Deutsche Bank, A.G. in Nuremberg. Between 1992 and 1993, he worked for Lafarge Coppée, Paris, and, since 1993, he was Chief Executive Officer and Chairman of the Board of Directors of Lafarge Cement, a.s., Prague. From 2005, he served as director of the segment electricity, gas and liquid fuels at SG&A at Lafarge, S.A., Paris. From January 2007, he was Chief Executive Officer of Lafarge Cement, a.s., in Ukraine. He has been retired since December 2009. Since 2001, he has been a Member of the Supervisory Board of Komerční banka. From 2014, he was Chairman of the Supervisory Board and now is a member of the Supervisory Board of LafargeHolcim, Česká republika.

**Sylvie Rémond**

A graduate of the Rouen Business School, she joined Société Générale in 1985, working first in the Development Division and then, between 1985 and 1989, as a product manager within the Individual Client Division. During 1989–1992, she worked as an aerospace group credit analyst within the Large Corporate Division. In 1992, she started work within the Structured Finance Department, first in a senior position in the area of acquisition finance, and later, in 2000, in the position of Co-Head of Corporate and Acquisition Finance Syndication. Between 2004 and 2008, she served as Co-head and, between 2008 and 2010, as Head of Credit Risk for Corporate and Investment Banking. During 2010–2014, she served as Deputy Chief Risk Officer. In 2015, she became Co-Head of Corporate and Investment Banking. She is also a member of the Group Management Committee. The General Meeting elected Ms Rémond a member of the Supervisory Board of Komerční banka with effect from 23 April 2015.

**Miroslava Šmídová**

A graduate in finance from the University of Economics, Prague. She has been working at Komerční banka since 1990 (before that, in the State Bank of Czechoslovakia). During this period, she has held various positions: credit clerk during 1987–1990; accounting, investment, and personnel analyst during 1990–1992; branch manager during 1992–1999; regional branch manager's assistant during 1999–2003, and later head of the business division; head of support for south-west Bohemia during 2003–2007; business centre specialist during 2007–2011; and from 2011 to the present as a head commercial employee. Since 2017, she has been a member of the Supervisory Board of Komerční banka.

**Activity report of the Supervisory Board**

Regular meetings of the Supervisory Board shall be held once per calendar quarter and with the possibility of remote voting. A quorum of the Supervisory Board shall be constituted if at least five members of the Supervisory Board are present at the meeting. Resolutions of the Supervisory Board are adopted by an absolute majority of all its members.

In 2017, the Supervisory Board held four regular meetings and one remote vote in accordance with the Bank's Articles of Association. The average meeting length was 1 hour and 31 minutes. The Supervisory Board reviewed the Bank's separate and consolidated financial statements as of 31 December 2016 prepared under International Financial Reporting Standards (IFRS) and recommended that the General Meeting approve both sets of financial statements as proposed by the Bank's Board of Directors.

The Supervisory Board also examined the Board of Directors' proposal for distribution of net profit for the 2016 accounting period and recommended that the General Meeting approve this proposal. Furthermore, it reviewed the Report on Relations among Related Entities for 2016 compiled in accordance with the provisions of § 82 et seq. of Act No. 90/2012 Coll., on Business Corporations and Co-operatives (the Act on Business Corporations) and stated that, based on the presented documents, Komerční banka did not incur during the accounting period from 1 January 2016 to 31 December 2016 any damages resulting from any concluded contract, agreement, other legal action taken or received by the Bank, or from any other influence imposed by Société Générale. At the same time, upon the recommendation of the Audit Committee, the Supervisory Board agreed to submit a proposal to the General Meeting to approve Deloitte Audit s.r.o. as the external auditor of the Bank for the year 2017.

During 2017, the Supervisory Board was continuously informed of the Bank's activities and was regularly presented reports and analyses. The Supervisory Board assessed, in particular, the functionality and efficiency of the Bank's internal control systems, concluding that the internal control systems are functional and effective. Moreover, it examined the 2016 annual assessment report on KB's system for anti-money laundering and preventing the financing of terrorism and the annual compliance management report. KB Group's budget for 2017 was submitted for discussion to the Supervisory Board. The Supervisory Board discussed remuneration of the members of the Board of Directors and decided on the amounts of bonuses, the payment of which is subject to the principles (scheme) of deferred bonuses. The Supervisory Board also discussed developments in the areas of employee demographics, sickness rate and overtime and the results of the so-called staff barometer. The Supervisory Board properly investigated four complaints sent to it during the year. It discussed the annual analysis as to the handling of all complaints sent to KB and its Ombudsman. The Activity Report of the Board of Directors for 2016 also was presented to the Supervisory Board. Based on the proposal of the Nominations Committee, the Supervisory Board elected two new members of the Board of Directors, each of whom had previously served in the Board of Directors.

The Supervisory Board regularly discussed the Bank's quarterly financial results and its position on the market with a view to developments in the macroeconomic environment. Furthermore, it discussed the actions of the Internal Audit and their results in individual periods of the year, as well as the internal audit plan for 2018 and the strategic plan for 2018–2022. Also, the Internal Audit Strategy and the Quality Assurance and Improvement Programme were submitted to the Supervisory Board. In the course of its activities, the Supervisory Board continued to rely on the opinion of its Audit, Risk, Remuneration and Nominations

committees and was informed of the issues discussed by these committees. The Supervisory Board approved the new version of the Rules of Procedures, Statutes of the Audit Committee and Risk Committee. The Supervisory Board re-elected its Chairman and Vice Chairman.

## The Supervisory Board's committees

The Supervisory Board established within its competences the Audit Committee, the Risk Committee, the Nominations Committee and the Remuneration Committee as its advisory and initiative bodies. Committees of the Supervisory Board provide the Supervisory Board with regular reports on their activities and within the areas entrusted to their jurisdiction submit to the Supervisory Board recommendations directed to preparing resolutions for adoption by the Supervisory Board.

### Audit Committee

The Audit Committee is a committee of the Supervisory Board and was established in accordance with Act No. 93/2009 Coll., on Auditors, as amended. Its powers are stipulated by that act and the statutes of the committee.

The Audit Committee consists of three individual members who meet the requirements for performing duties of a member of an audit committee set forth by legal regulations and by the statutes of the committee. Audit Committee members shall be appointed by the General Meeting from the members of the Supervisory Board for terms of four years. The major members of the Audit Committee, including its Chairman, are independent and professionally qualified.

### Composition of the Audit Committee

#### Petr Laube

Independent Member of the Audit Committee (since 29 April 2009) and Chairman of the Audit Committee (since 30 September 2010, re-elected on 30 April 2013 and on 1 May 2017)

#### Giovanni Luca Soma

Member of the Audit Committee (since 25 April 2013, re-elected on 26 April 2017), Vice-Chairman of the Audit Committee (since 3 May 2016)

#### Bořivoj Kačena

Independent member of the Audit Committee (since 23 April 2016)

The Audit Committee meets as a rule once per quarter, but at least four times in a calendar year. A quorum of the Audit Committee shall be constituted if a simple majority of all Audit Committee members attend the meeting. Decisions on all matters discussed by the Audit Committee must receive an absolute majority of votes to be carried. If the votes are equal, the chairperson shall cast the deciding vote. The person in question shall not vote in the proceedings with respect to the election and removal of the Chairman and Vice-Chairman of the Audit Committee.

The Audit Committee held eight regular meetings in 2017. The committee performed its monitoring activities and worked closely within the Bank, especially with Internal Audit, Strategy and Finance, Risk Management, and Compliance departments, and also with the external auditor, who kept it informed about the ongoing audit of the Bank.

The committee discussed KB Group's annual financial results for 2016, the consolidated and separate financial statements and notes thereto as of 31 December 2016 prepared under International Financial Reporting Standards (IFRS), and the proposal for distribution of net profit for 2016. In this context, it discussed the scope, strategy and the main areas of external audit of financial statements for 2016, prepared by Deloitte Audit, s.r.o., and in this context it also monitored the integrity of the financial information. It further evaluated the independence of the external auditor and recommended that the Supervisory Board submit to the General Meeting for approval a proposal to appoint Deloitte Audit, s.r.o. as the Bank's external auditor for 2017. KB Group's budget for 2017 was presented to the committee for discussion. The committee also regularly discussed Internal Audit's reports on the status of corrective measures and was continuously informed about all of Internal Audit's investigations conducted in individual periods. The Internal Audit Strategy and Quality Assurance and Improvement Program were also presented to the Audit Committee. The committee discussed the Constructive Service Letter prepared by the external auditor, Deloitte Audit, s.r.o. It monitored the external audit process and was informed about the external auditor's plan in compiling the financial statements for 2017. It was also presented with the contract for an external audit with Deloitte Audit, s.r.o. Furthermore, the committee examined in detail risk mapping, the annual internal audit plan for 2018, and the strategic plan for 2018–2022.

The Audit Committee regularly discussed at its meetings the Group's financial results for each quarter. Attention was also devoted to the capital adequacy of the Bank and Group. In this context, the committee discussed the Bank's capital management strategy, particularly with respect to new regulatory requirements regarding capital base. It also discussed the dividend policy in relation to the profit for the year 2017. The committee was regularly informed about the Bank's functioning in the internal control area and the development of all associated risks that it evaluated. The risk appetite document was submitted to the committee, as was the fraud detection system. The committee also discussed an update to its statutes and the report on its activities for 2016, which was submitted to the Public Audit Board. It was informed about the new developments in legislation regarding the approval of providing of non-auditing services by an external auditor, and in this context agreed to provide this service. The committee re-elected its chairman and vice-chairman.

### **Risk Committee**

The Risk Committee has three members, one of whom is independent. The committee meets according to need, but at least twice per year. A quorum is constituted if a simple majority of all members of the committee is present at the meeting. Resolutions shall be adopted by agreement of an absolute majority of all its members.

#### **Composition of the Risk Committee**

##### **Petr Laube**

Independent Member and Chairman of the Risk Committee  
(from 25 September 2014)

##### **Jean-Luc Parer**

Member of the Risk Committee (from 25 September 2014)

### **Giovanni Luca Soma**

Member of the Risk Committee (from 25 September 2014)

The committee held three regular meetings in 2017. The average length of the sessions was 1 hour and 12 minutes. The committee discussed all issues of the Bank's risk management system and its efficiency (including the Bank's credit risk profile and remuneration principles). It concerned itself with the acceptable risk appetite and the Bank's strategy in the risk area.

### **Remuneration Committee**

The Remuneration Committee has three members, one of whom is independent. The committee meets according to need, but at least twice per year. A quorum is constituted if a simple majority of all members of the committee is present at the meeting. Resolutions shall be adopted by agreement of an absolute majority of all its members.

#### **Composition of the Remuneration Committee**

##### **Jean-Luc Parer**

Chairman of the Remuneration Committee  
(from 25 September 2014)

##### **Giovanni Luca Soma**

Member of the Remuneration Committee  
(from 25 September 2014)

##### **Bořivoj Kačena**

Independent Member of the Remuneration Committee  
(from 25 September 2014)

The committee held three regular meetings in 2017 and one remote vote. The average length of the sessions was 1 hour. The committee discussed issues of the deferred bonus scheme and remuneration of KB's employees. It provided recommendations to the Supervisory Board within the scope of its powers. Moreover, it discussed and provided its recommendations for remunerating members of the Board of Directors, and it provided information in relation to updating the remuneration principles. The committee was informed on the progress of collective bargaining and further on the regulatory changes of the CNB and their impacts on KB.

### **Nominations Committee**

The Nominations Committee has three members, one of whom is independent. The committee meets according to need, but at least twice per year. A quorum is constituted if a simple majority of all members of the committee is present at the meeting. Resolutions shall be adopted by agreement of an absolute majority of all its members.

#### **Composition of the Nominations Committee**

##### **Jean-Luc Parer**

Chairman of the Nominations Committee  
(from 25 September 2014)

##### **Giovanni Luca Soma**

Member of the Nominations Committee (from 25 September 2014)

##### **Bořivoj Kačena**

Independent Member of the Nominations Committee  
(from 25 September 2014)



The committee held two regular meetings in 2017 and two remote votes. The committee discussed issues of the Bank's personnel policy and proposed election of members of the Board of Directors. It furthermore concerned itself with the re-election of some members of the Supervisory Board and nomination of new ones. It evaluated the structure, size, composition and performance of the Board of Directors and Supervisory Board. It discussed the evaluation as to the trustworthiness, competence and experience regarding individual members of the Board of Directors and the Supervisory Board, as well as of both of these bodies as a whole.

## Emoluments and benefits to members of the Board of Directors and Supervisory Board

In relation to his or her work in the Bank, no person with executive power has any conflict of interests between the duties of a person with executive power in the Bank and that person's private interests or other duties. Komerční banka has concluded service contracts with all members of the Board of Directors, and these were approved by the Supervisory Board. The contracts are concluded for the term of office of each member of the Board of Directors. The contracts provide no benefits upon termination of service. Certain members of the Board of Directors also have concluded contracts with the Bank's subsidiaries to serve as members of their supervisory boards. In these cases, the contracting parties are as specified in the descriptions of functions within the subsidiaries stated in the section "Composition of the Board of Directors". Albert Le Dirac'h and Didier Colin have during their assignment in KB also employment contracts signed with Société Générale S.A.

### Principles of remuneration for members of the Board of Directors

Remuneration for members of the Board of Directors is in accordance with the EU's Capital Requirements Directive IV and its transposition into Czech law by CNB Decree No. 163/2014 Coll., as amended. The Supervisory Board decides on the amounts of remuneration based upon a proposal from its Remuneration Committee.

Remuneration for members of the Board of Directors consists of fixed and variable parts. The fixed remuneration is paid monthly, and its amount reflects the experience and responsibilities of the respective member of the Board of Directors. The variable part of the remuneration (the annual performance bonus) is not an automatic entitlement, reflects the performance of the member of the Board of Directors during the year, and is closely linked with the results of the Bank. In deciding the amount of the variable remuneration, the Supervisory Board and its Remuneration Committee assess all relevant financial and business indicators, including the development of net profit, market shares, net banking income, costs, and cost of risk. In deciding the amount of the variable remuneration, the Supervisory Board and its Remuneration Committee also take into account the results of an independent evaluation made by Compliance and Risk Management as to the quality of the performance of individual members of the Board of Directors in terms of risk management. The maximum amount of the variable component of remuneration may not exceed 200% of the fixed component of remuneration, while any variable component of remuneration

greater than 100% of the fixed component is subject to approval by the General Meeting.

The budget for the variable remuneration as a whole is set in accordance with the financial plan for the given fiscal year. In accordance with its strategy, KB takes into account planned year-on-year changes in net operating income, operating expenses, allowances for loan losses and other risks (the cost of risk), and net profit at Komerční banka's separate (unconsolidated) level, excluding the effect of dividends received. The budget for the variable remuneration as a whole is drawn depending on KB's business plan being fulfilled in all its main indicators. It may be decreased by 0–100% depending on fulfilment of the key indicators net banking income, business performance, operating expenses, cost of risk, net profit including exceptional items, capital adequacy and the Bank's liquidity, as well as in accordance with quarterly results and cumulative results from the beginning of the fiscal year.

Rules are adopted regarding payment of the variable component of remuneration of the Chairman of the Board of Directors and other members of the Board of Directors. These rules consist in retaining and postponing the payment of a portion of the variable remuneration and using a non-cash instrument linked to KB's share price. In accordance with the regulation, the deferral scheme does not include entitlement to interest or dividends during the deferral period. The only period which gives the right to dividends or interest is the period of retention.

### Scheme of variable remuneration for the Chairman of the Board of Directors:

The variable remuneration of the Chairman of the Board of Directors is subject to a five-year deferral scheme. With regard to the ratio of the variable component and the fixed remuneration component, the variable component is paid in two different modes:

If the variable component is less than or equal to EUR 300,000, then 70% of the variable component is spread over a period of five years. The first part (30%) is transformed into a non-monetary instrument linked to the price of KB shares and is paid after the retention period of nine months. Payment of the remaining 40% part is paid in five years as follows: The first payout (10%) is made in March of the year following the year the bonus was awarded ( $N + 1$ ). The second payout (10%) is made in March in the year  $N + 2$  after the award. The remaining two parts are transformed into a non-monetary instrument linked to the price of KB shares and are granted in March of years  $N + 3$  (10%) and  $N + 5$  (10%) and are always paid out after a nine-month retention period. There is no payment of the variable remuneration in year  $N + 4$  after the award. The non-deferred part of the variable remuneration (30%) is paid out in March on the salary payment date in the year when the remuneration was awarded (year  $N$ ).

If the variable part is greater than EUR 300,000, then 80% of the variable part is spread over five years. The first part of 20% is transformed into a non-monetary instrument linked to the price of KB shares and it is paid out after a retention period of nine months. Payment of the remaining 60% of the variable remuneration is made on a straight-line basis over five years, similarly as in the aforementioned case, the instalment amount being 15%. The non-deferred part of the variable remuneration



amounting to 20% of the awarded amount is paid out in March on the salary payment date in the year the bonus was awarded (N).

### **Scheme of variable remuneration for other members of the Board of Directors**

The variable remuneration of other members of the Board of Directors is subject to a three-year deferral scheme. With regard to the ratio of the variable remuneration and the fixed remuneration component, the variable remuneration is paid in two different modes:

If the variable component is less than or equal to EUR 300,000, then 70% of the variable component is spread over three years. The first part of 30% is transformed into a non-monetary instrument linked to the price of KB shares, which is paid after a retention period of nine months. Payment of the remaining 40% part is made on a straight-line basis over three years as follows: The first payment is made in March of the year following the award (N + 1). The remaining two parts are transformed into non-monetary instruments linked to the price of KB shares, awarded in March of years N + 2 and N + 3, and always paid after a retention period of nine months. The non-deferred part of the variable remuneration amounting to 30% of the awarded amount is paid in March on the salary payment date of the year the bonus was awarded (year N).

If the variable component is greater than EUR 300,000, then 80% of the variable part is spread over three years. The first part of 20% is transformed into a non-monetary instrument linked to the price of KB shares and is paid after a retention period of nine months. Payment of the remaining 60% of the deferred amount is made on a straight-line basis over three years, similarly as in the aforementioned case and the instalment being 20%. The non-deferred part of the variable remuneration amounting to 20% of the awarded amount is paid in March on the salary payment date of the year the bonus was awarded (N).

Settlement (payment) of the part of the bonus linked to the KB share price is in cash. Members of the Board of Directors are not allowed to hedge price movements of the non-monetary instruments. The variable remuneration awarded need not be paid in part or in full in cases where a member of the Board of Directors exposes the Bank to a level of risk above that considered acceptable by the Bank, where his or her conduct causes material damage to the Bank, or where he or she materially breaches the Bank's internal regulations (e.g. by behaving unethically) or legal regulations. The bonus also need not be paid in the case that it was awarded based upon deliberately incorrect or misleading information.

The reference price of the non-monetary instrument is determined as the arithmetic mean of the daily closing prices for KB shares on the Prague Stock Exchange (PSE) 20 days before the record date. In 2017, the record date for determining the initial reference price of the non-monetary instrument was 13 March. The number of non-monetary instruments awarded to members of the Board of Directors was calculated as of this date. The next record date for determining the final amount for payment of the respective variable remuneration according to the number of non-monetary instruments awarded and KB share price on the PSE was 13 December 2017. Both record dates were fixed by the Remuneration Committee of the Supervisory Board.

In addition to the aforementioned remuneration, those members of the Board of Directors having Czech citizenship are entitled to the following remuneration:

- a) above-standard health care (Santé Silver Card);
- b) meal vouchers valued at CZK 95 per day at no cost to the employees;
- c) contribution valued at CZK 6,700 per employee per year for recreation, sport, health, culture and personal development for use through the cafeteria plan;
- d) amount in total value of CZK 2000 per year for employees with physical disabilities and CZK 600 per year for employees over 55 years of age through the cafeteria plan;
- e) contributions to supplementary pension insurance or supplementary pension savings in the amount of 3.5% of the base for social security and state employment policy contributions;
- f) contribution to capital life insurance in the amount of CZK 650 per month;
- g) contribution for the purchase of employee shares in the Global Employee Share Ownership Programme of Société Générale;
- h) premium conditions for retail banking products and services provided by Komerční banka to its employees;
- i) financial support for long-term illness;
- j) risk life insurance; and
- k) social assistance in exceptional circumstances.

Members of the Board not having Czech citizenship and who are posted to the Czech Republic are eligible for these additional benefits:

- a) above-standard health care (Santé Silver Card);
- b) meal vouchers valued at CZK 95 per day at no cost to the employees;
- c) contribution valued at CZK 6,700 per employee per year for recreation, sport, health, culture and personal development for use through the cafeteria plan;
- d) amount in total value of CZK 2000 per year for employees with physical disabilities and CZK 600 per year for employees over 55 years of age through the cafeteria plan;
- e) contribution for the purchase of employee shares in the Global Employee Share Ownership Programme of Société Générale; and
- f) premium conditions for retail banking products and services provided by Komerční banka to its employees.

In contrast to the members of the Board of Directors with Czech citizenship, members temporarily posted to the Czech Republic are entitled to consideration relating to their stay abroad (e.g. covering costs for moving and transport at the start and end of their assignments; accommodation costs; insurance, including health insurance and social security; support during the immigration process; traveling costs within a defined budget; and tuition fees for children).

In order to carry out their duties as well as for private use, the Bank provides members of the Board of Directors with a company car, contributions to fuel costs, a mobile telephone with an unlimited voice and data tariff, and a personal computer.

The value of all in-kind and monetary payments to the members of the Board of Directors is given in the section "Information on monetary and in-kind income to members of the Board of Directors and the Supervisory Board".

## Principles of remuneration for members of the Supervisory Board

Remuneration for members of the Supervisory Board consists of a fixed monthly part and a part dependent on the members' attendance at meetings. Remuneration is set by decision of the General Meeting. In accordance with a resolution of the annual General Meeting held on 17 June 2004, remuneration for members' attendance at Supervisory Board meetings is limited to a maximum of six meetings per year.

Members of the Supervisory Board elected by employees are additionally entitled as employees of the Bank to a basic monthly salary and other compensation in lieu of salary according to their employment contracts pursuant to the Labour Code.

Members of the Supervisory Board who fulfil established conditions are entitled by their employment with KB under the same conditions as other KB employees to the following additional remuneration:

- a) meal vouchers valued at CZK 95 per day at no cost to the employees;
- b) contribution valued at CZK 6,700 per employee per year for recreation, sport, health, culture and personal development for use through the cafeteria plan;
- c) amount in total value of CZK 2,000 per year for employees with physical disabilities and CZK 600 per year for employees over 55 years of age through the cafeteria plan;
- d) employees receive contributions to supplementary pension insurance or supplementary pension savings in the amount of 2% of selected wage components from which is calculated the contribution for social security and state employment policy contributions, the minimum amount of the employer contribution being CZK 400 per month;
- e) contribution to capital life insurance in the amount of CZK 650 per month;
- f) contribution for the purchase of employee shares in the Global Employee Share Ownership Programme of Société Générale;
- g) premium conditions for retail banking products and services provided by Komerční banka to its employees;
- h) financial support in case of long-term illness;
- i) 2 paid days off and 1 additional day off for employees who are employed continuously for 7 years or more in Komerční banka, this benefit not being transferable to the next calendar year;
- j) risk life insurance; and
- k) social assistance in exceptional circumstances.

Komerční banka has concluded service contracts with all members of the Supervisory Board, and these were approved by the General Meeting held on 30 April 2014. The contracts are concluded for the term of office of each member of the Supervisory Board. The contracts provide no benefits upon termination of service. Information on all in-kind and monetary payments to the members of the Supervisory Board is given in the following section.

## Information on monetary and in-kind income to members of the Board of Directors

The total value of remuneration to members of the Board of Directors includes all monetary and in-kind income received in 2017 by current and former members of the Board of Directors in relation to their membership in the Board of Directors. Furthermore, all bonuses awarded (but not necessarily paid) in 2017 are also included.

### Board of Directors (in total eleven current and former members)

	Total CZK	Of which for performance of Board responsibilities
A	27,546,154	27,546,154
B	1,204,223	1,204,223
C	23,718,919	23,718,919
D	0	0
E	0	0
F	3,152,210	3,152,210
<b>TOTAL</b>	<b>55,621,506</b>	<b>55,621,506</b>

#### Notes:

- (A) total amount of remuneration awarded, which is at the same time remuneration paid for services performed in the given fiscal year;
- (B) remuneration and benefits received from any company within the KB Group;
- (C) bonuses to members of the Board of Directors awarded in 2017 regardless of when individual parts become due;
- (D) remuneration to members of the audit committee;
- (E) paid or payable compensation for former members of the Board of Directors in connection with termination of their activities during the given fiscal year; and
- (F) total estimated value of non-monetary income considered as remuneration not included in points (A) to (E).

The management of KB is convinced that the aforementioned net summary most faithfully describes the trend of remuneration for the given group of the Bank's representatives

In accordance with Act No. 256/2004 Coll., on Capital Market Undertakings, as subsequently amended, Komerční banka also releases information on all monetary and non-monetary income received by members (including former members) of the Board of Directors from Komerční banka and from entities controlled by the Bank during the 2017 financial reporting period, including for services provided outside the period of their membership in the Board of Directors. The data are published in a structure similar to that from the provisions of Section III, point 5.3 of the European Commission Recommendation of 14 December 2004 (2004/913/EC):

- (A) total amount of remuneration paid for services performed in the given fiscal year;
- (B) remuneration and benefits received from any company within the KB Group;
- (C) remuneration paid in the form of profit sharing and/or bonuses;
- (D) significant additional remuneration paid for special services beyond the scope of usual duties;

- (E) paid or payable compensation for former members of the Board of Directors in connection with termination of their activities during the given fiscal year; and
- (F) total estimated value of non-monetary income considered as remuneration not included in points (A) to (E).

#### Board of Directors (in total eleven current and former members)

	Total CZK	Of which for performance of Board responsibilities	Of which for employment
A	31,322,608	27,546,154	3,776,454
B	1,366,972	1,204,223	162,749
C	22,744,503	21,344,503	1,400,000
D	0	0	0
E	0	0	0
F	4,509,770	3,152,210	1,357,560
<b>TOTAL</b>	<b>59,943,853</b>	<b>53,247,090</b>	<b>6,696,763</b>

The tables describe all remuneration received by members of the Board of Directors of Komerční banka in 2017, including that accepted in 2017 by former members of the Board of Directors of Komerční banka as a result of the deferral of remuneration (the deferral of remuneration applied to 9 former and present members of the Board of Directors, who were paid a bonus in 2017). If there are no items listed, then no such consideration was provided to the members by Komerční banka or by entities controlled by KB in the given year.

#### Information on monetary and in-kind income to members the Supervisory Board

In accordance with Act No. 256/2004 Coll., on Capital Market Undertakings, as subsequently amended, Komerční banka also releases information on all monetary and in-kind income received during the 2017 financial reporting period by members (including former members) of the Supervisory Board from Komerční banka and from entities controlled by the Bank. The data are published in a structure similar to that from the provisions of Section III, point 5.3 of the European Commission Recommendation of 14 December 2004 (2004/913/EC):

- (A) total amount of remuneration paid for services performed in the given fiscal year, including remuneration for meeting attendance approved by the General Meeting of shareholders;
- (B) remuneration and benefits received from any company within the Group (note: KB Financial Group) – concerns only members who are employees;
- (C) remuneration paid in the form of profit sharing and/or bonuses – concerns only members who are employees;
- (D) significant additional remuneration paid for special services beyond the scope of usual duties;
- (E) paid or payable compensation for former members of the Supervisory Board in connection with termination of their activities during the given fiscal year; and
- (F) total estimated value of non-monetary income considered as remuneration not included in points (A) to (E) – concerns only members who are employees.

#### Supervisory Board (in total eleven members during the year 2017)

	Total CZK	Of which for performance of responsibilities	Of which for employment*
A	4,692,181	3,382,500	1,309,681
B	52,434	0	52,434
C	264,928	0	264,928
D	300,000	300,000	0
E	0	0	0
F	115,402	0	115,402
<b>TOTAL</b>	<b>5,424,945</b>	<b>3,682,500</b>	<b>1,742,445</b>

\* Employee income is included for employee members newly appointed or outgoing during the year only for periods when the employee was also a member of the Supervisory Board.

The table above presents in the aforementioned structure the compensation received during 2017 by the members of the Supervisory Board of Komerční banka for performing the duties of a member of the Supervisory Board or the Audit Committee. If no value is shown for a given category, then no such compensation was made within the given year to the member of the Supervisory Board of Komerční banka.

#### Information on shares and share options held by members of the Board of Directors and the Supervisory Board

The following table provides information on the numbers of shares issued by Komerční banka that were held as of 31 December 2017 by members of the Board of Directors and members of the Supervisory Board, as well as information on options and comparable investment instruments whose values are linked to the price of KB shares and which were concluded by or on behalf of the listed persons.

31 December 2017	Shares	Options
Members of the Board of Directors in 2017 (total)	17,000	0
Members of the Supervisory Board in 2017 (total)	16,845	0
Related persons (total)	0	0

No members of the Board of Directors or members of the Supervisory Board were contractual parties to any option or similar contract concerning comparable investment instruments whose values are linked to KB shares, nor were any such contracts concluded on their behalf.

# I Responsible employer

## Key data on employees

Average recalculated number of employees during year	2017	2016	2015
– KB Group	8,492	8,476	8,426
– Komerční banka	7,551	7,549	7,538
– of which in Slovakia	40	38	38
– of which in Czech Republic	7,511	7,511	7,500
– of which at headquarters	4,009	3,949	3,878
– of which in the distribution network	3,502	3,562	3,622

Age structure of employees (KB, Czech Republic, as of end of year)			
≤30	17%	17%	17%
31–40	27%	27%	28%
41–50	32%	32%	32%
51+	24%	23%	23%

Employees by type of employment contract			
– Full-time	93%	93%	93%
– Part-time	7%	7%	7%

Employees by contract type			
– Permanent employment	85%	85%	86%
– Other employment (temporary, limited assignment, other)	15%	15%	14%

Employees' qualifications			
– University	45%	44%	43%
– Secondary school	52%	54%	54%
– Other education	3%	2%	3%

Proportions of men and women			
– Men	34%	33%	33%
– Women	66%	67%	67%

Proportion of women in leadership positions(including team leaders)	53%	52%	53%
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Number of employees on maternal and parental leave	727	711	737
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Illness rate	2.99%	3.02%	2.90%
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Number of employees with disabilities	137	72	76
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A key aspect of Komerční banka's strategic vision is to pursue the creation of longstanding partnerships with its employees. In doing so, Komerční banka presumes there to be a professional relationship that stems from mutual trust, respect, communication, equality of opportunity, and the availability of attractive professional and career development prospects. These values are shared across the Group.

Concerning the legal framework, Komerční banka and the entire Group are subject to the same legal conditions and standards as apply to any other employer in the Czech Republic. Its activities are supervised by the Czech National Bank, which may apply other regulatory measures, for example in relation to employee education and remuneration. Rules of Société Générale and international standards can also have an influence. Conformity with all legal standards, decrees and regulations is subject to regular or random control, and failure to uphold these standards can be sanctioned in accordance with the applicable regulations.

## Work safety and working conditions

To the full extent of law, KB ensures its employees' occupational safety as well as health and fire protection against possible risks that would endanger their lives and health when performing their work. It provides its employees with sufficient and adequate information and instructions on safety standards and on providing first aid. The Bank also ensures respect for the prohibition against smoking and consumption of alcoholic beverages in the workplace. Management employees at all levels are responsible that the employer's obligations in this area are honoured. These tasks are an equal and integral part of their work obligations. The employer provides work-related medical services through EUC Premium and regular employee training in safety, health and fire protection standards according to the relevant legal standards. Komerční banka regularly organises checks and employee training in these areas while documenting and recording the results.

Komerční banka is also modernising the environment within its branches in accordance with both safety and health requirements, as well as regarding the social environment and state-of-the-art technologies.

## Right to information and to social negotiation

All information designated for employees is in numerous and various ways shared openly within KB Group. For each employee, the main source of information is his or her superior. Since 2016, an Employee section has been in operation within the new KB intranet. All necessary information from the human resources area is accessible there and is regularly updated. Employees can call the Moje HR (My HR) telephone line, submit their inquiries by e-mail or contact HR Business Partners and consultants.

The right of KB employees to social bargaining is exercised through the KB Trade Unions Organisation. KB is in regular contact with representatives of the trade unions organisation, and collective bargaining is ongoing every year.



The right to information is based in the Collective Agreement. The collective agreement has been concluded for the period 2017–2020. The results of employer and trade union negotiations are fully accessible to all employees, including the full text of the Collective Agreement.

### Employee health

Komerční banka has for several years been systematically attentive to the health of its employees. KB continued in 2017 – and further developed – its Moje Vitalita programme during 2017. It aims to support high work performance from KB employees by looking after their physical and mental well-being. Physical well-being was given special focus in 2017, and the programme featured Health Days across the Czech Republic.

### Supporting employees in difficult life situations

KB respects all its employees' human and social rights. Any form of discrimination is prohibited. Over the long term, KB has been accommodating in relation to its employees who happen to be in difficult life situations. This support is effected in various ways, and it considers the life situation an employee is facing (for example, through flexibly adjusting work time, reducing working hours, home office, financial support, unpaid vacation, etc.). Every situation is assessed and resolved individually.

Support of employees in difficult life situations is based on the Collective Agreement and the corresponding implementation rules. Any drawing of financial aid is recorded by the employer.

### Gender diversity

The principles of equal opportunities and non-discrimination are among Komerční banka's basic principles as an employer. Employees are hired on the basis of their experience and competence, and the same approach is applied with regard to internal mobility. Moreover, KB applies a diversified approach to the individual employee groups based upon their needs and current situations. This approach can impact the offer of educational programmes for certain groups (new graduates, managers, sales positions, specialists).

Another specific group of employees consists of those on maternity and parental leave (ML/PL). Their successful reintegration into the workflow is among Komerční banka's important goals. KB is in contact with these employees also during the maternity and parental leave; they are invited to networking events and, in case of mutual interest and needs, co-operation during the leave is established. After return from ML/PL, employees may take advantage of reduced work responsibilities, home office or flexible work hours, if the type of operation and job character so permit.

The principle of equal treatment is anchored in KB's basic documents, such as the Code of Ethics, the Rules of Employment and the Principles of Remuneration. Employees and managers conducting recruitment are trained regarding discrimination and in the essentials of the Labour Code. The proportion of employees reintegrated after returning from ML/PL is regularly monitored and included into the managerial reporting.

### Equal conditions in employment

Komerční banka applies the principle of non-discrimination in selecting employees. Paramount is that the expectations for the work position and job description are in accordance with the knowledge, competencies and expectations of each individual applicant. A specific population upon which KB wants to focus attention is that of handicapped applicants with disabilities. Recruitment employees are trained in recruiting applicants with disabilities, and monthly monitoring of this area has been established.

### Talent search and acquisition

In 2017, Komerční banka again co-operated actively with institutions of higher education, including universities, and student organisations. The Bank thereby continued in its long tradition of assisting tertiary education through sponsorship and expert support to state tertiary schools throughout the Czech Republic. Among the most active co-operation was that with the University of Economics in Prague (VŠE), Masaryk University in Brno, and Czech Technical University in Prague (ČVUT). Co-operation with ČVUT in Prague, or more specifically with the Faculty of Information Technology, involved both research support and development of new ideas in innovations and digitalisation with substantial contributions of Komerční Banka's Innovation Lab. Other forms of co-operation with university students consisted of meetings at job fairs, open-house days, workshops, and special events with specific economic topics. These activities took place both at the partners' premises as well as at Komerční banka itself. More than 100 interns from secondary and tertiary schools acquired practical experience at Komerční banka's headquarters as well as within its branch network. The Bank's main partners among student organisations in 2017 were AIESEC, the Association of Students and Graduates (ASA), and Prague Banking Club.

### Employee education and career development

KB's human resources strategy is geared to developing long-term partnerships with employees. This is supported through education, among other things. KB Group employees have access to a broad range of educational activities and programmes, even as strong emphasis is given to the principle that the employee should take individual responsibility for his or her career development.

As in previous years, the Bank devoted particular effort to the development of those employees in direct contact with clients within the branch network. Special attention was given to the development of managers and high-potential employees, who are participants of the Strategic Talent Management programme.

The M'Academy management academy focuses on enhancing long-term, personalised skills in the areas of human resources development, responsibility, innovation and the pro-client approach. Other integration and development programmes have traditionally been dedicated to new employees (StartinG) and new university graduates (ConnectinG and ConnectinG+).

Komerční banka continues in co-operation on development programmes with parent company Société Générale. KB employees have the opportunity to develop their skills and abilities in an international environment.

### Remuneration

The objective of KB's remuneration strategy is to support the Bank's overall strategy and business objectives, prevent undertaking of excessive risks and imprudent behaviour, take into account clients' rights and interests, support cost efficiency, and boost the Bank's value from the perspectives of its employees, shareholders, and clients through a healthy, business-sensitive remuneration policy. It is based on the following fundamental principles:

- **Internal fairness** is about equal remuneration for individual employees performing equally in the same job under the same transparent conditions. Remuneration, therefore, must not be affected by gender, age, religion, membership in labour organisations or political parties, or by employees' other personal characteristics not directly connected with their work performance or competence.
- **External competitiveness** is achieved with the assistance of regular market surveys.
- **Reflecting risks** means ensuring that remuneration at KB remains consistent with, and supportive of, healthy and efficient risk management. Remuneration compliant with this principle does not encourage risk-taking beyond those risk levels tolerated by the Bank.

The remuneration structure is supported by three fundamental pillars:

- **Basic pay for work performed**

The pay of any employee is determined in respect of the demands of his or her particular position, especially in terms of required knowledge, experience and skills, as well as corresponding responsibilities.

- **Flexible performance-dependent pay component**

In addition to the basic pay, a variable pay component scheme is in place for all employees. It rewards contributions in achieving corporate, team and individual targets.

- **Employee benefits and advantages supporting employee loyalty within Komerční banka Group**

The cost-effective structure of these benefits reflects the Bank's objective to be a responsible employer while at the same time providing the employees with the possibility to choose. The structure and level of benefits is subject to collective negotiation every year.

### Corporate values and The Leadership Model

Inasmuch as corporate culture is a stone in the foundation for achieving long-term success in business, KB is applying a new definition of its corporate values that are shared across SG group.

Those updated core values are: **team spirit, innovation, commitment and responsibility**. The values contribute to the basis of an updated model for managers and employees' conduct, known as "The Leadership Model". It is built on the following five pillars:

- Client satisfaction,
- Innovation in creativity and change management,
- Responsibility,
- Our teams' commitment, and
- Team spirit with a strong sense of achieving results together.

The updated corporate values are progressively being reflected in all associated processes, and particularly in recruitment, assessment, remuneration and education.



## Risk governance

### Main principles of risk management in KB Group

Risk management at Komerční banka is based on an integrated concept that takes into account the advanced risk management standards of the Société Générale Group together with the statutory and regulatory norms as defined and required by the Czech National Bank and other regulatory bodies. Komerční banka's corporate governance standards assure that the risk management function is independent of commercial and operational functions.

Credit risk management, including management of Komerční banka's market risks and counterparty risks arising from financial market activities and recovery of the Bank's receivables as well as management of related information systems, is carried out within the Risk Management Arm of KB. The Risk Management Arm closely co-operates with risk management at KB subsidiaries and supervises their activities. Operational risk, legal risk and compliance risk are managed within the Corporate Secretariat. Management of interest rate risk and foreign exchange risk in the banking book is conducted within the Strategy and Finance Arm.

### Overall risk management strategy

Through its risk management strategy, KB Group continues to pursue a prudent and balanced approach to all types of risks assumed (i.e. credit, market and liquidity risks, as well as regulatory, legal, operational and environmental risks). At the same time, it aims to support development of the Group's business activities, including sustainable growth of its lending activities and reinforcing the Group's market positions.

The objective is to ensure profitable credit and market activities across the business cycle and, at the same time, to preserve a sound balance sheet with strong capital and liquidity ratios. To this end, advanced risk management tools, including statistical tools, are continuously enhanced and analytical and risk management skills are maintained at high levels for both risk management and business staff.

A general target of KB's risk management is to harmonise risk management processes and tools throughout the Group. The Bank enables shared access to selected tools within the credit risk system for designated subsidiaries, thereby providing a unified credit risk view and harmonising the credit risk approach.

The Group has further enlarged its use of sophisticated credit risk models within the capital adequacy calculation. In 2017, the MPSS retail portfolio was newly moved from the Standardised to the Advanced Internal Ratings-Based approach.

Stress-testing results in 2017 confirmed that KB Group would meet the regulatory requirements for capital adequacy even in the case of a negative development in the Czech economy.

### Risk appetite

KB Group risk appetite is outlined in the KB Group Risk Appetite Statement, which since 2015 has been prepared in compliance with Financial Stability Board recommendations. It defines at aggregated level all risks that KB Group is ready to accept or intends to avoid and defines a prudent and balanced approach to them, namely in relation to:

- credit risk, including concentration risk;
- market risk, liquidity and structural risk, including interest rate risk in the banking book and FX risk;
- as well as operational, compliance and reputation risk.

The KB Group Risk Appetite Statement is elaborated with the aim of ensuring consistency among the risk-taking capacity, capital adequacy, and the business and financial targets. The level of the Group's risk appetite and its risk management strategy are fully aligned and within the boundaries of SG Group Strategy & Risk Appetite.

The Risk Appetite Statement is revised annually or, according to need, more frequently.

## Credit risk

### Regulatory development – IFRS 9

During 2017, KB prepared implementation of the IFRS 9 requirements, which are obligatory for KB from the beginning of 2018. KB utilised the SG Group IFRS 9 methodology with a few local adjustments. Great attention was devoted to assuring that provisions calculation in accordance with IFRS 9 is consistent with the risk-weighted assets calculation (the same statistical models are used in both calculations) and with the regular stress testing approach (forward-looking predictions in the IFRS 9 calculations are the same as those used in the regular stress testing). Technical implementation was completed and utilises existing IT tools.

### Credit risk development

Credit risk remained at a low level during 2017. Improvement continued in the Retail segment, which was positively influenced by the Czech economy's improving performance which was accompanied by low unemployment and rising real wages. The Corporate segment remained healthy overall, the cost of risk results being affected by a few isolated cases.

The Group's cost of risk<sup>1</sup> decreased to -6 basis points (net release) in 2017 from 32 basis points in 2016, driven mainly by diminished credit risk in the Corporate segment.

Loans and advances to customers grew by 3.1% in comparison with the end of the previous year to reach CZK 598.1 billion. Total loans and advances to customers, gross was up by 2.6% to CZK 610.8 billion and included CZK 1.3 billion of reverse repo transactions with clients.

Within the loan portfolio of the Group (excluding Debt securities and Other amounts due from customers), the share of standard loans climbed to 95.3% (CZK 575.6 billion), while the proportion of loans rated watch was 1.6% (CZK 9.5 billion). Loans classified as with obligor default (substandard, doubtful and loss) comprised 3.1% of the portfolio and totalled CZK 18.6 billion. The volume of provisions created for loans came to CZK 12.7 billion. That was 18.2% less than at the close of 2016.

## Principal activities in 2017

KB Group concentrated during 2017 especially on the following activities in the credit risk area:

- preparing KB Group for new regulatory requirements (IFRS 9, AnaCredit, EMIR, regulations in the area of mortgage loans, etc.),
- implementing the optimised risk management function in KB Group with a focus on aligning and interconnecting subsidiaries' risk management processes with those of the Bank,
- further developing the risk tools in the area of small business financing (including introduction of a specific credit anti-fraud system),
- strengthening the concentration management framework and the borrowing base and receivables management processes in the corporate segment, and
- updating key risk models to reflect the latest observations of portfolio development with the goal of maintaining sufficient margins across the entire business cycle.

## Credit risk management tools

### Credit risk assessment and monitoring

Client credit risk is managed on the basis of comprehensively assessing clients' risk profiles from quantitative (financial) and qualitative viewpoints using advanced scoring and rating models along with individual approval by competent risk or business managers. The system of approval authorities is set up to reflect the risk profiles of the counterparties and the levels of competencies required for their assessment.

No credit exposure can be originated until internal credit limits for the client and transaction have been first duly established.

All KB scoring, rating and Basel (e.g. Loss Given Default, Probability of Default) models are back-tested at least annually and any deterioration triggers corrective measures.

## Credit fraud prevention

Komerční banka uses an automated system for detecting individual credit frauds and for co-ordinated reactions to credit fraud attacks. The system is fully integrated into KB's main applications. Anti-fraud tools and processes are continuously adjusted according to the market situation.

## Classification

The Bank classifies all its assets originating from financing activities into five categories according to Czech National Bank Decree No. 163/2014 Coll. while taking into account both quantitative criteria (payment discipline, financial statements) and qualitative criteria (in-depth client knowledge, client's behaviour and history). The contagion principle is implemented in classifying co-applicants and guarantors in relation to defaulted receivables.

## Real estate valuation

In compliance with Czech regulations and Basel III rules, the valuation and monitoring of real estate collaterals accepted by the Bank as security for corporate and retail loan exposures are delegated to a dedicated independent unit. This unit is a part of the Risk Management Arm and co-operates with a broad group of external valuation experts.

Komerční banka continuously monitors both residential and commercial real estate markets and regularly revalues the real estate collaterals it holds. The Bank utilises appropriate techniques (individual or statistical) for this purpose in order to react adequately to market developments.

## Recovery activities

The Bank closely monitors changes in the legal environment, analyses their impacts in the area of receivables collection, and ensures their proper reflection in KB processes.

The inflow of clients into recovery has been relatively stable, influenced especially by good macroeconomic conditions and clients' financial situations. Nevertheless, there were defaults of several larger entities.

Given the size of the portfolio in recovery, KB continued in optimising its recovery capacity and performance by using external capacities as well as regular auction sales of unsecured and secured retail portfolios to selected qualified investors.

## Credit concentration risk management

Komerční banka's credit concentration risk is actively managed as a part of overall credit risk management and utilising standard tools. The Bank maintains its objective of taking on no excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, countries, selected industry sectors and collateral providers. A system of internal limits (based on exposure and counterparty rating) is established, so that the Bank is able to thoroughly monitor concentration risk and comply with the regulatory limits set in respect to concentration risk.

<sup>1</sup> Cost of risk in relative terms: 'Allowances for loan losses' divided by (('Gross amount of client loans and advances' as of the end of reported period + 'Gross amount of client loans and advances' as of the end of comparable period) divided by 2)

## Provisioning and its adequacy

### Main principles of provisioning

The Group uses one of three methods to assess the amount of allowances. For larger, individually significant loans classified as default (Substandard, Doubtful and Loss loans based on the CNB's classification), the allowances are assessed on an individual basis requiring management to monitor the borrower's repayment abilities individually, including the estimated value from the collateral foreclosure and expected duration of the recovery process, etc. These allowances are calculated using discounted expected future cash flows. For smaller, individually not significant impaired loans where the loans are homogeneous in nature (for example the consumer and mortgage loans to individuals and smaller corporate portfolios), the allowances are calculated by models using historical delinquency statistics. Portfolio allowances are calculated for losses that have been incurred but have not been identified. Portfolio allowances are held against non-impaired loans across all segments and calculated using models based on probabilities of default and loss given default until the impairment event occurs and individual or model allowances for impaired loans are recognised.

Historical loss experience is adjusted on the basis of currently observable data to reflect new loss observations and to have better discrimination ability (i.e. to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently). The methodology and assumptions used for estimating the future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

## Market risk

### Capital markets risks management

Market risk and counterparty risk on market transactions in KB Group's financial markets activities are managed by a dedicated Capital Markets Risks Department. This department reports directly to the Bank's Chief Risk Officer and is fully independent of business units. It operates within the framework of Société Générale Group's Market Risk Division. Methodologies for measuring risks and control procedures are thus aligned with the best practices of Société Générale.

### Market risk management methods for the trading portfolio

Several types of measures are used for assessing risks in Komerční banka's trading portfolio:

- Value-at-Risk (VaR) is calculated using historical scenarios with a 99% confidence level and 1-day time horizon. The reliability of the VaR model's results is back-tested while checking the daily P&L against the VaR. KB's Board of Directors is regularly informed about the results of the back-testing.
- The impacts of low-probability events not covered by VaR are assessed using various stress-testing methods and scenarios.
- Volume and sensitivity metrics are used to measure exposure to all relevant risk factors (e.g. FX, interest rate, basis, flight-to-quality, commodities, and credit spread risks).

Market risk limits are approved by two members of the KB Board of Directors (Senior Executive Director Risk Management, Senior Executive Director Top Corporations) after being validated by SG's Market Risk Division.

The Bank uses enhanced valuation techniques for derivatives while taking into account whether a given derivative is concluded with or without collateral agreement and thus reflecting the cost of the Bank's liquidity.

Komerční banka is not exposed to risk of change in volatility on its market book, as all option derivatives are traded on a back-to-back basis.

### Counterparty risk on financial markets activities

A market transaction may be concluded with a counterparty only on validated products and if approved limits exist for this counterparty. Counterparty limits for financial markets operations are monitored on a daily basis. Any breach of such limits is immediately reported to the relevant management level within the Bank.

The measurement of counterparty risk arising from derivative products is based on the Credit Value at Risk (CVaR) indicator. This indicator is calculated using Monte Carlo simulation while taking into account netting and collateral effect. With a 99% confidence level, CVaR quantifies the potential future replacement costs of a transaction with a client in case of such client's default.

## Financial risks

In addition to credit and non-financial risks, the Group is exposed to risks related to changes in interest and exchange rates and liquidity of assets (financial risks). The process of managing financial risks aims to hold risks undertaken to a minimum while also facilitating the Group's organic development. The methods for identifying, measuring and managing risks in the areas of foreign exchange and interest rates are typically based on the requirement to minimise the impact on earnings. Supervision of the financial risk management process is by the Assets and Liabilities Committee (ALCO), which includes, among others, members of Komerční banka's senior management. The ALCO approves rules and methods used in managing the aforementioned risks. It also oversees the levels of risk taken on and the proposed hedging transactions that the Bank will execute in managing risk. KB's Asset and Liability Management (ALM) Department defines methodologies for identifying and measuring these risks, subject to approval by the ALCO and Board of Directors. The ALM Department also measures the risk indicators and reports them regularly to the ALCO and Board of Directors. KB's Treasury Department proposes and implements investment and hedging operations for managing the Bank's risk profile. Treasury is also in charge of setting up appropriate economic benchmarks for price setting, again subject to ALCO approval. Mirroring the regulatory developments in France and the USA, the liquidity risk management has been centralised into the Treasury Department.

The ALCO, as well as the ALM and Treasury departments, supervise the processes of asset and liabilities management in other KB Group entities. All financial risk management activities fully comply with the rules of Czech regulatory authorities and with relevant international banking regulations.

## Price setting

The process of product price setting is organised on two levels. The first involves the economic principle of determining a proper benchmark in terms of current market conditions and at the level of Komerční banka's portfolio (by ALCO). The second is to determine the price for the customer in view of a combination of marketing objectives and product parameters from the client perspective (by the Commercial Committee). Treasury provides tools and supports the Bank's business network in valuing transactions, setting client rates, and determining exchange rate spreads. The price-setting strategy is to offer clients products bearing competitive interest rates while always taking into account those costs connected with the price of liquidity and hedging against interest rate risk. In that manner, margins and financial stability are preserved even despite possible changes in market conditions.

## Interest rate risk in the banking book

Interest rate risk constitutes the risk of possible financial loss or negative changes in the Group's net interest income due to movements in market interest rates. KB Group has divided its business activities according to their nature into the banking book and market book. Transactions executed with clients through the branch network typically fall within the banking book while operations on the interbank market belong in the market book. Interest rate risk is measured and managed separately for the banking and market books. With regard to interest rate risk in the banking book, the parent company (i.e. Komerční banka) and Modrá pyramida are the most significant members of the Group. The Group manages its banking book interest rate risk using standard methods such as gap analysis and interest rate sensitivity analysis. The aim of the Group is to minimise banking book risk and not at all to speculate on interest rate changes. To this end, the Group has established prudent limits. These limits were not exceeded in 2017. KB uses such standard market instruments for hedging against interest rate risk as interest rate swaps and forward rate agreements, as well as investing into securities. All hedging and investment transactions are immediately entered into the Bank's front office system, where they are recorded and priced.

As of 31 December 2017, securities were for the most part held by the Group in the available-for-sale (AFS) and held-to-maturity (HTM) portfolios. In both cases, the Group does not acquire these securities with the intention to sell them before maturity. The selection of portfolio for a given investment is ultimately driven by the need to limit volatility in the volume of regulatory capital otherwise stemming from the Basel III regulatory concept, wherein the revaluation difference of the AFS portfolio is included into the regulatory capital. This means that the reported volume of regulatory capital may be unexpectedly influenced not only due to worsening of the credit quality of the issues but also because of movements in market interest rates. On the other hand, investments in the HTM portfolio cannot be hedged against interest rate risk due to limitations set by rules of hedge accounting. Interest rate derivatives (used for hedging risk in the banking book) are accounted for in accordance with the valid accounting regulations (including IAS 39) in order to achieve the most accurate accounting presentation. KB has worked out a detailed strategy of interest rate risk management that includes

descriptions of which derivatives are allowed, how these may be used, and the procedures for their accounting valuations.

## Foreign exchange risk in the banking book of KB Group

Foreign exchange risk is defined as the risk of potential loss to the Group due to fluctuations in currency exchange rates. The Group's foreign exchange risk is measured and managed on a daily basis, and its position is controlled by a system of limits. The strategy is to minimise the impact of foreign exchange risk in the banking book, which means essentially to achieve neutral foreign exchange positions. For the purposes of hedging these, the Bank uses such standard instruments as FX spot and FX forward operations. Within the Group, foreign exchange risk is concentrated especially in Komerční banka itself. The maximum open foreign exchange position of the Group's banking book in 2017 was less than 0.12% of the Group's capital, and thus it was essentially negligible. Part of foreign exchange risk management also involves KB's ability to respond quickly to market developments so as to prevent the conclusion of economically disadvantageous transactions. Komerční banka uses an automatic system for continuously monitoring the development of market rates, and it changes those rates used in client transactions once the market movement reaches a predetermined threshold.

## Operational risk

The overall strategy for operational risk management is determined by the Operational Risk Committee, which also adopts appropriate steps in case of any negative development in the operational risk area and approves principal changes in the insurance programme utilised for mitigating impacts of operational risk events.

KB has been applying the Advanced Measurement Approach (AMA) to operational risk management and capital requirement calculation since 2008. Capital requirement calculation is performed using a central model of Société Générale. In addition to the standard tools utilised within the AMA approach, such as collecting data on actual operational risk losses, risk control self-assessment, key risk indicators, and scenario analysis, KB also has implemented a system of permanent supervision composed of daily and formalised controls. The headquarters departments use the SG group instrument GPS (Group Permanent Supervision) to manage and report on these formalised controls. In 2017, the concept of "second-level controls" based on SG group principles was further developed, aiming at independent control over setting up and performing formalised controls. The Bank continuously enhances the effectiveness of individual operational risk management processes, including the collection of information about internal events. In 2017, Komerční banka Group recorded 517 operational risk events in a final amount of CZK 48 million. In a year-on-year comparison, this represents a 12.4% decrease in the number of losses and a 45.0% decrease in terms of total loss volumes. Regarding loss volumes, fraud and other criminal acts constitute the most significant long-term risk category.



KB expends considerable effort and resources in the fight against fraud. Within the Bank, there are several teams and systems specifically focused upon preventing and fighting against various types of fraud. In 2017, KB significantly strengthened its ability to detect and subsequently investigate suspected fraudulent behaviour of employees.

Co-operation within consolidated operational risk management has been deepened among KB Group companies. Within KB Group, the AMA approach is already used in four Group companies. In addition to the Bank itself, these include Modrá pyramida, as well as two non-banking entities, SGEF and ESSOX.

## Business continuity

Business continuity management consists in developing Komerční banka's structures, procedures and resources intended to cope with extraordinary situations in order to reduce the potential damaging impacts these may have on the Bank; protect the entity's employees, clients, assets and activities; and enable it to continue providing basic services and thus to protect KB's reputation, business assets, brands, products, processes and know-how while limiting the impact on KB's financial position. KB has developed business continuity plans for all main vital and critical processes. These plans are regularly updated and tested. The system is subject to regular reviews by external and internal auditors, as well as regulatory authorities.

## Cyber and information security

The goal of risk management in the area of cyber and information security is to ensure that the key pillars of information security – confidentiality, integrity, availability and non-repudiation are properly maintained. Sound management of the mentioned pillars provides adequate security for clients and the internal bank environment. Komerční banka is well aware both of the continually increasing number of threats originating from the cyber environment as well as the growing sophistication and innovativeness of such attacks. New types of attacks on clients and on bank information systems have the potential to lead to violation of the Bank's cybernetic and information security. The most serious risks, originating mainly from the external environment, include risks of fraud, risks of attacks on our clients, risks of penetrating the Bank's information systems, and loss of access to provided electronic services. Furthermore, Komerční banka is aware of threats that can originate from inside of the Bank's organisation, where among the greatest risks are those associated with internal fraud, misuse of access rights, and potential leak of banking or other internal information.

In 2017, Komerční banka was exposed to a number of serious cyber security threats and needed to respond to these without delay. Those temporarily heightened cyber risks were quickly addressed and mitigated by applying recommended measures. No actual breach of the Bank's cyber and information security was identified in connection with those threats.

Strict application of preventative security policies ensures proper risk management in the area of cyber and information security. These policies are based on several key sources: Czech and EU laws and regulations, Société Générale Group policies, and the family of ISO/IEC 2700x norms. Within the established information security management system, the Bank regularly performs risk assessment of information and IT assets. The results are fully integrated with overall risk control self-assessment (RCSA) practice. Komerční banka continually strengthens the security of the internal bank environment. In 2017, the Bank completed implementation of additional security measures aiming to improve the ability to detect and block external attacks on the network infrastructure, the Bank deployed sophisticated protection of its users against malware disguised in e-mail communication, and it began rolling out a strong user authentication solution among employees. It also continued to invest in heightening and updating the security awareness of all employees.

With the aim to further mitigate risks associated with client security, Komerční banka continually pursued its "Securely Together" initiative that aims to communicate directly to its clients threats currently existing and the principles of safe behaviour in the digital world while educating clients and offering them guidance in case of digital emergency. Moreover, Komerční banka continued in maintaining its dedicated security website (<https://www.kb.cz/security>) and in promoting use of IBM's Trusteer Rapport security tool by clients of internet and mobile banking. Trusteer is focused on protecting from such specific threats as fake and harmful websites (phishing) and malware, as well as on preventing attempts to detect passwords (e.g. keylogging). In 2017, this protection was further extended to cover also the iOS mobile platform. KB's anti-fraud detection system helped save funds of many clients, as it detected and blocked suspicious payments that had been submitted in a standard way but nevertheless initiated on the basis of a fraudulent request.

Komerční banka continually monitors a defined set of key risk indicators (KRI), such as the number of security exceptions, number and criticality of open vulnerabilities, and number of security incidents. None of the monitored KRIs exceeded the approved levels in 2017. The Bank neither recorded nor reported any cyber security incident as per the definition stated in Act No. 181/2014 Coll., on Cyber Security.

## Compliance risk

Compliance risk consists in the potential for breach of regulatory rules and standards, principles of ethical behaviour and, last but not least, internal regulations to be upheld within KB Group and to which the Group is committed and which it has defined on the basis of regulatory rules and general principles. When such risk event comes to pass, this has possible consequences for the Bank in terms of legal action taken by regulatory agencies and institutions or clients of the Bank, additional risk of financial penalties, damages or remediation costs, and further risk for loss of reputation and goodwill among clients and the general public and thus more possible financial losses.



To manage compliance risk, KB has established a set of rules and processes within the control and management system. The Bank is scrupulously attentive to their observance. The Compliance Department is an important part of the Bank's management and control system. It has clearly defined functions and powers to identify these risks and prevent their being realised, particularly consisting in monitoring compliance with the established rules and procedures.

Risk management rules and processes are embedded in the Bank's internal regulations. All employees are regularly reminded of those internal regulations, and their compliance with them is regularly controlled. Senior employees are responsible for the continuous education of their colleagues to ensure compliance with the rules.

The Bank carries out a series of activities for the purposes of compliance risk management. The first step is to monitor systematically outputs of the relevant regulatory bodies as well as proposed new regulation through monitoring those bodies' discussions and approvals. The next activity is to co-ordinate implementation of the regulations within the Bank by creating internal regulations and procedures, then following up with inspection and consulting.

Komerční banka has developed a broad basis of internal regulations within risk management whereby it focuses primarily on preventing violations of regulatory and ethical rules and minimising the associated risks. The main areas relevant for the Bank include in particular:

- preventing money laundering and financing of terrorism,
- rules for preventing corruption and accepting gifts,
- managing conflicts of interest,
- rules for providing financial market services,
- rules for handling insider information,
- distribution and advertising of products,
- payment operations,
- protecting banking secrecy,
- consumer protection,
- client data protection,
- competition, and
- rules regulating advertising.

In these areas, the Bank provides training to relevant groups of employees and informs them about new regulatory developments. The purpose of this training is to ensure compliance with regulatory requirements while maintaining general awareness about the main principles and rules of conduct that both Komerční banka and its employees must observe. The Bank provides advisory and support in the aforementioned areas across all KB Group companies.

In the context of compliance risk management, KB insists upon a zero tolerance for fraudulent and dishonest conduct of any sort, as well as for any infringement of the pertinent regulatory and ethical rules, either consciously or through negligence. Special attention is given also to reputational risks that must be taken into account within the context of the Bank's activities.

A number of mechanisms have been put into place to minimise the risks of regulatory non-compliance by Komerční banka and its employees. In addition to the mentioned training courses, monitoring compliance with the rules is among the most important of these. The results of particular controls are regularly reviewed, especially in terms of the effectiveness of the implemented rules but also with a view to the proper settings for the individual controls. At the same time, the Bank records findings and conclusions from inspections carried out by regulatory institutions. This includes monitoring the implementation of corrective action where a regulatory institution's inspection has found a discrepancy. Furthermore, individual regulatory inconsistencies identified through normal bank operations are recorded and carefully evaluated. Based on such findings, consideration is always given to measures for preventing these. All these activities and identified indicators are evaluated on a regular basis and reported to KB's board of directors.

### **Main compliance risk management activities during 2017**

A priority for KB remained to implement both local and international regulatory requirements. The scope and complexity of the new regulations, as well as the high degree of legal uncertainty in relation to implementing the new rules, placed considerable demands on the Bank's capacities and on aligning the affected systems and processes. The short time between publication of the requirements and their entry into force, as well as the fact that some related regulations were adopted only shortly before or after the effectiveness of the overall requirement, made their implementation very challenging.

In the area of preventing money laundering and financing of terrorism, the Compliance Department focused during 2017 on adjusting the internal control system following adoption of an amendment to Act No. 253/2008 Coll., on Certain Measures against the Legalisation of Proceeds from Criminal Activity and the Financing of Terrorism. It also created conditions for updating internal processes and rules in accordance with the project programmes of the Société Générale Group.

The control mechanisms for enforcement of international sanctions programmes were reinforced during 2017 at the overall Société Générale Group level, reflecting the worldwide business activities of the group.

Work was ongoing in 2017 on implementing requirements of the EU's Payment Accounts Directive, the EU's Payment Services Directive, and, above all, the new Act No. 370/2017 Coll., on Payment Systems, which was adopted with effect from 13 January 2018. A project focused upon implementing EU's General Data Protection Regulation (GDPR) was also underway.

In the capital markets area, a project implementing EU regulatory requirements on communicating key information documents concerning packaged retail and insurance-based investment products (PRIIPs) and on the Markets in Financial Instruments Regulation and Directive (MiFIR and MiFID II) was ongoing. The requirements of MiFID II were also transposed into Act No. 256/2004 Coll., on Capital Market Undertakings. All of these regulations came into effect on 3 January 2018. Implementation of these regulations places great demands on all the Bank's resources, particularly due to ambiguous wording and varying interpretations of these regulations both by the individual regulatory bodies and by the individual market participants across the EU. The common objective of these regulations is customer protection, and therefore their correct and complete implementation has been a priority of the Bank for several years.

In the insurance products area during 2017, the Bank initiated a project directed to implementing the requirements of the Insurance Distribution Directive (IDD), which should have been transposed into Czech law with effect from 23 February 2018. Considering the very short time this date gave to the authorities to implement the requirements of this directive into their legal regulations, the effectiveness was postponed to 31 October 2018. The Bank, as a tied insurance intermediary of Komerční pojišťovna, a.s., co-operates very closely on IDD implementation with Komerční pojišťovna, a.s. Because consumer protection is the objective of IDD, implementation of its requirements as transposed into Czech law is one of the Bank's priorities for 2018.

Implementation of EU legislation (regarding the capital markets and other areas) remains the main task of the Compliance Department for 2018.

In 2017, and in connection with implementation of Act No. 300/2016 Coll., on the central register of accounts, the Compliance Department participated in creating conditions and rules for reporting banking information to the newly established Central Accounts Register administered by the Czech National Bank.

## Governing law

As an issuer of publicly traded securities, during 2017 Komerční Banka was governed in its activities particularly by the following laws:

- Act No. 21/1992 Coll., the Banking Act;
- Act No. 256/2004 Coll., on Capital Market Undertakings;
- Act No. 90/2012 Coll., on Business Corporations and Co-operatives;
- Act No. 257/2016 Coll., on Consumer Credit;
- Act No. 284/2009 Coll., the Payment Systems Act (from 13 January 2018 the newly effective Act No. 370/2017 Coll., on Payment Systems);
- Act No. 38/2004 Coll., on Insurance Intermediaries and Independent Loss Adjusters and on Amending the Trade Licensing Act;
- Act No. 253/2008 Coll., on Certain Measures against the Legalisation of Proceeds from Criminal Activity and the Financing of Terrorism;
- Act No. 69/2006 Coll., on Implementation of International Sanctions;
- Act No. 300/2016 Coll., on the Central Register of Accounts;
- Act No. 563/1991 Coll., on Accounting;

- Act No. 101/2000 Coll., on Personal Data Protection;
- Act No. 143/2001 Coll., on Protection of Economic Competition;
- Act No. 136/2011 Coll., on the Circulation of Banknotes and Coins;
- Act No. 190/2004 Coll., on Bonds;
- Act No. 240/2013 Coll., on Investment Companies and Investment Funds;
- Act No. 89/2012 Coll., the Civil Code;
- Act No. 277/2013, on Foreign Exchange Activities;
- Act No. 634/1992 Coll., on Consumer Protection;
- Regulation (EU) No. 596/2014, on Market Abuse;
- Regulation (EU) No. 575/2013 on Prudential Requirements for Credit Institutions and Investment Firms and Related Implementing Regulations of the European Commission; and
- Regulation (EU) No. 648/2012 on OTC Derivatives, Central Counterparties and Trade Repositories (EMIR).

These regulations entail the main legal basis for the Bank's operations. In addition to what is stated above, the Bank's activities must also comply with a number of other regulations, government decrees, implementing regulations, guidelines and other documents issued by European bodies.

## Legal risk

Managing legal risk consists in minimising uncertainty associated with enforcement and interpretation of legal acts, contracts, regulations and laws. KB Group applies a variety of techniques, procedures and tools, including regular monitoring of proposed and adopted legislation, close co-operation among the legal teams within KB Group, a system of continuous education of and specialisation among lawyers, detailed documentation and evaluation of outputs and, last but not least, a set of corresponding control mechanisms to manage legal risks.

In addition to standard legal functions within such various areas as contract, banking and corporate law, the main tasks of KB's lawyers during 2017 involved in particular implementation of the GDPR regulation on personal data protection, EMIR regulation on market infrastructure, the MiFID II directive on markets in financial instruments, as well as the PSD 2 revised Payment Services Directive and PAD Payment Accounts Directive.

## Significant legal disputes

With respect to its overall financial situation, Komerční banka considers as significant all litigations involving principal amounts exceeding CZK 10 million and any bankruptcy proceeding in which the Bank is a creditor with a claim exceeding CZK 50 million.

As of 31 December 2017, KB Group was a party to 9 significant legal proceedings as a plaintiff. The principal that was the subject of these legal proceedings totalled CZK 409 million. KB Group was a bankruptcy creditor with a claim exceeding CZK 50 million in 26 bankruptcy proceedings. The total of claims filed in relation to these proceedings was CZK 5.2 billion. As of 31 December 2016, KB Group was a party to a total of 8 significant legal proceedings as a defendant. The principal that was the subject of these legal proceedings totalled CZK 712 million.

Information concerning the provisions created for litigations in which the Group is a defendant is stated in the Notes to the Consolidated Financial Statements according to IFRS, Note 38 – “Commitments and contingent liabilities”.

As of 31 December 2017, KB (on a standalone basis) was a party to a total of 9 significant legal proceedings as a plaintiff. The total principal that was the subject of these lawsuits was CZK 409 million. KB was a creditor in 26 bankruptcy proceedings as of 31 December 2017 in which it had a claim exceeding CZK 50 million. The total of KB's claims in these cases was CZK 5.2 billion. As of 31 December 2017, KB was a party to a total of 7 significant legal proceedings as a defendant. The principal that was the subject of these legal proceedings totalled CZK 622 million.

Information concerning the provisions created for litigations in which the Bank is a defendant is stated in the Notes to the Separate Financial Statements according to IFRS, Note 37 – “Commitments and contingent liabilities”.

## Internal audit

The main tasks of KB Internal Audit include to assess the functionality and effectiveness of risk management, control processes and the Bank's corporate governance, as well as contribute to improving the organisation's overall operational effectiveness.

KB Internal Audit is integrated into the organisation of the global division of Internal Audit within the SG Group. In addition to conducting audits at KB, it also provided coverage for KB Group subsidiaries and SG Group entities in the Central European region.

The strategic goals of Internal Audit are primarily focused on covering major risks and the most important activities of the Group, including fulfilment of all regulatory requirements. Internal Audit's engagements are driven by the annual audit plan prepared mainly on the basis of assessments of the risks and priority areas (such as embargoes and sanctions). In 2017, 81 audits were carried out, 22 of which were performed in KB Group subsidiaries and one of which was conducted across the KB Group as a whole, including the Bank itself. The 59 audits performed within the Bank covered both the distribution network and head office units, as well as selected companies providing KB with important services (outsourcing). In total, 199 recommendations addressing issues identified by audit engagements were implemented within KB Group during 2017. Of these, 19 were given significant priority. The Bank proper continued to have the lowest number of long-term unresolved recommendations. As of the year's end, five recommendations had been outstanding for more than 18 months.

In its regular report to KB's Board of Directors, the Audit Committee and the Supervisory Board, Internal Audit evaluated the Bank's internal control system and declared it effective. A review of the remuneration system in KB, which focused mainly on the fulfilment of CRD IV requirements, was performed for the sixth time. No significant findings were revealed.

Using a methodology shared across the entire SG Group, the plan for 2018 draws upon outcomes from a risk assessment and the five-year audit cycle.

## Internal control and approach to risks in the process of accounting and preparing financial statements

The Bank uses a number of tools in several areas to ensure true and accurate presentation of facts in the accounting and proper compilation of financial statements. These begin with tools for proper recording of individual transactions, include various controls, and finally involve preparing the statements and their control.

The tools used for proper recording of transactions, events, trades and the like in accounting include, in particular, the selection of appropriate systems (applications) for their recording and processing, thorough testing during their implementation, maximum automation of all repetitive processes, and managing of access rights to individual systems. Setting up systems, processes and controls is always formally governed by the Bank's internal regulations.

Compliance of those accounting methods employed with IFRS in particular is ensured by an independent department that regularly monitors developments in these standards and other regulatory rules, analyses effects ensuing therefrom, and implements the standards in co-operation with relevant departments. For more information on the rules used, see Notes to the Financial Statements, Note 3 – “Principal accounting policies” and Note 42 – “Risk management and financial instruments”.

The Bank utilises a system of defining responsibilities for individual ledger accounts (the so-called ownership system) under which a particular employee authorised to transact with the account and an employee responsible for account analysis are assigned to each account of the general ledger. The control over account analysis includes, in particular, the duty to specify at any time the account balance and to monitor its balance and movements, as well as responsibility for documentary stock-taking of accounts. The control over account analysis also involves reconciliation of data in supporting systems relating to the data in the general ledger at specified regular intervals.

The area of control tools may be divided into two parts: control as to the accuracy of input data and follow-up control over the consistency and integrity of the functioning and accounting of the individual systems. Control over the accuracy of input data is performed especially in the Distribution and Transaction and Payment Services arms within the First Level Control system which constitutes the basis of the Bank's internal control system. The First Level Control system establishes the control activities of the management employees so that there occurs oversight over operational risks arising from the activities of the relevant departments; monitoring of the quality, effectiveness and reliability of the established work procedures; verification of the employees' compliance with the applicable regulations and procedures; and determination of corrective measures in cases when deficiencies are identified.

Follow-up control is carried out in particular by an independent department of the Accounting and Reporting Division which expressly checks the data in the accounting by means of analytical procedures. The main analytical procedures may be classified as control over data consistency as of the current date with the development in the past, consistency between financial and non-financial data (numbers of transactions, trades, etc.), and consistency between the changes in the balance sheet and income statement. The changes in the development of individual items of the financial statements or directly in the general ledger accounts are regularly analysed, and these changes are subsequently reconciled to the changes in trades, prices for services provided and market data, or to changes attributable to one-off items.

An automated system is used to process most financial statements. In most cases, detailed data from source systems is used for their creation and this data is reconciled with the general ledger while at the same time the accuracy of the data in the general ledger is checked.

The effectiveness of internal controls is evaluated by an independent Second Level Control system that examines design and operating effectiveness of both First Level Controls and operational controls. Key risk indicators (such as number of manual transactions, or number and volume of various reconciliation gaps) are also regularly followed up and evaluated in the Bank while their values are kept at very low risk levels in the long term. The internal control system in the financial reporting area is also regularly evaluated by Internal Audit.

# | Capital and liquidity

## Regulatory framework

Komerční banka is subject to supervision by the Czech National Bank (CNB), and since November 2014 the Société Générale Group has been supervised by the European Central Bank.

The regulatory requirements in the European Union are established within the Basel III capital framework through Regulation No. 575/2013 on prudential requirements for credit institutions and investment firms (the Capital Requirements Regulation, or “CRR”) and by Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirements Directive 4, or “CRD IV”). CRD IV was transposed into Czech law by an amendment to the Banking Act and publication of CNB Decree No. 163/2014 Coll. The new regulation establishes, above all, the newly conceived capital ratios as well as more stringent requirements mainly on regulatory capital, liquidity, risk-weighted exposures and overall corporate governance.

The Basel III rules did not change the processes of capital adequacy management, but they were reflected in those processes' parameters, particularly with regard to implementing an additional combined capital buffer and Pillar 2 above the 8% minimum required capital. The regulatory methodology substantially stabilised in 2016 (in particular the stacking order of capital buffers), and subsequently in 2017 the additional Pillar II buffer of 1.4% over the minimum required capital ratio of 8.0% was applied to the Bank. This brought the required TSCR (i.e. total SREP) capital ratio to 9.4%. The combined capital buffer of 6.0% was applied on top of the TSCR capital ratio, thus resulting in a required overall capital ratio of 15.4% for 2017. This marked an increase by 0.9% in comparison to the previous year, due in particular to the newly applied countercyclical capital buffer and an increase in the reserve to cover systemic risk. The combined capital buffer consists of the capital conservation buffer of 2.5%, the systemic risk buffer of 3.0%, and, for the first time in the Czech Republic, a required countercyclical buffer of 0.5%.

Komerční banka's overall capital requirements as of 1 January 2018 reached 15.5% in relation to the consolidated volume of risk-weighted assets. That is higher by 0.1% in comparison with 2017 due to increase in the additional Pillar II requirement by 0.1% to 1.5%. The total requirements will increase by an additional 0.5% as of 1 July 2018 due to increase in the countercyclical capital buffer in the Czech Republic to 1.0% and by a further 0.25% as of 1 January 2019 when the Czech National Bank increases the countercyclical buffer requirement to 1.25%.

IFRS 9 Financial Instruments supersedes the existing standard IAS 39. It introduces a new approach to the classification and measurement of financial assets, a new credit risk impairment methodology and new hedge accounting rules. Application of the new classification and measurement methodology means that financial assets must be classified upon initial application of the standard based on both the entity's business model for managing the financial assets (hold to collect, hold to collect and sell, other business models) and the financial asset's contractual cash flow characteristics, i.e. applying of the “solely payment of principal and interest” test (SPPI). Based on business model determination and consideration of contractual cash flow characteristics, financial assets will be newly measured at amortised cost, at fair value through profit or loss, or at fair value through other comprehensive income. The detailed information on implications of IFRS 9 is provided in Note 3.4.2. to the Separate financial statements.

The Bank and Group meet the overall capital ratio requirements with adequate reserve, because their respective capital ratios stand well above the minimum required level. The Bank has decided not to apply the transitional arrangements relating to introduction of IFRS 9 in the area of regulatory capital according to article 473a of Regulation (EU) No. 575/2013 (regulating capital requirements) as amended by Regulation No. (EU) 2017/2395. The impact of the transition to IFRS 9 is insignificant in relation to regulatory capital, and the Bank is able to absorb it immediately.

## Consolidated capital and risk-weighted assets

Total shareholders' equity comprises the following main items: share capital, reserve funds and retained earnings. As of 31 December 2017, shareholders' equity declined year over year by 4.8% to CZK 100.3 billion as accumulation of retained earnings was more than offset by decrease in revaluation reserve for cash flow hedges. This was a reflection of higher interest rates. Revaluation of cash flow hedges and AFS bonds during their lives was driven by changes in respective interest rates and, for bonds, in credit spreads. The benchmark 10-year interest swap rate had risen to 1.85% as of 31 December 2017 from 0.87% on 31 December 2016. AFS revaluation gains were also influenced by gradual amortisation of securities reclassified from the AFS to the HTM portfolio in 2014.



In hedging interest rate risk, KB has been using interest derivatives mitigating economic mismatch between long-term fixed-rate liabilities represented by the ALM model of current accounts and variable-rate assets. At the time when this main hedging relationship had been implemented, the full version of IAS 39 was not allowing fair-value hedging of current account portfolios. In further development, the EU version of hedge accounting (the so called 'carve out') made the fair value hedging of current account portfolios possible.

In this context, in November 2017 KB terminated hedging relationship of interest rate swaps classified as 'cash flow hedges of assets with floating / short-term rate' and introduced 'fair value hedges of the portfolio of current accounts'. At the date of reclassification the associated gains recognized for cash flow hedges in other comprehensive income (OCI) were insignificant. Consequently, the future movements of the interest rates will not impact the OCI from hedging derivatives. The remaining OCI from hedging derivatives will result from changes in the value of cross currency swaps.

As of 31 December 2017, KB held in treasury 1,193,360 of its own shares. These constitute 0.63% of the registered capital. These shares had been acquired in previous years at a cost of CZK 726 million. The Bank did not acquire its own shares during 2017. The acquisition of its own shares had been authorised by the General Meeting, particularly for purposes of managing KB's capital adequacy.

On 9 October 2017, Komerční banka concluded with Société Générale the agreement on provisioning of a Tier 2 subordinated loan in the amount of EUR 100 million, with 10 year maturity and a call option for the benefit of the Bank after 5 years, at an interest rate of EURIBOR 3 months plus 1.26%. The transaction took place in direct continuation of the Bank's announcement on 9 February 2017, in which Komerční banka disclosed intention in coming years gradually to reinforce its capital by Tier 2 instruments. The loan is part of Komerční banka's gradual optimisation of the capital structure. It will reinforce the Bank's voluntary capital buffer over the capital requirements set by the Czech National Bank and enhance the Bank's capacity to grow risk-weighted assets as well as to pay dividends. The loan is denominated in EUR in order to better align currency structure of KB's capital with the currency structure of assets. The loan has been accepted from Société Générale, after the Bank assessed other opportunities available on the market and concluded that the loan from SG provides the most effective option for the Bank. The Bank may in the following years continue to gradually increase the volume of Tier 2 instruments which according to the Czech National Bank may cover up to 2 percentage points of Komerční banka's risk-weighted assets, in order to optimise the structure of its regulatory capital. The actual decisions on potential further Tier 2 reinforcement will reflect the required level of regulatory capital as well as the prevailing market conditions.

Consolidated regulatory capital for the capital adequacy calculation stood at CZK 79.1 billion as of 31 December 2017. KB Group's regulatory capital was comprised mainly of Core Tier 1 equity but included also a minor Tier 2 component (subordinated debt, taken on by the Bank in 2017). The total capital adequacy under Basel III standards stood at 18.6% and the Tier 1 ratio at 18.0%. The regulatory capital base includes a contribution from a part of the revaluation reserve recognised within the equity account. This item, which pertains to disposable securities in the AFS portfolio and since 1 January 2015 has been included under the valid rules into the regulatory capital, amounted to CZK 1.0 billion. It added 24 basis points to the capital adequacy ratio.

#### KB uses the following approaches for calculating capital requirements related to individual types of risk:

KB Group entity	Capital requirement calculation approach			
	Credit risk	Market risk	Operational risk	
KB*	AIRB	STA	AMA	
BASTION			TSA	
PROTOS				
KB PS				
MPSS			AMA	
SGEF	STA			
ESSOX				
other entities**		TSA		

AIRB: Advanced Internal Rating-Based Approach

AMA: Advanced Measurement Approach

STA/TSA: Standardised Approach

\* excluding KB Slovakia

\*\* including KB Slovakia

The volume of the Group's risk-weighted assets (RWA) stood at CZK 424.6 billion as of 31 December 2017, compared to CZK 442.9 billion as of 31 December 2016. RWA for credit risk (including credit valuation adjustments) constituted 84%, operational risk 10%, and market risk 6% of the total RWA. The decrease in RWA was caused by improvement in the risk profile across the entire portfolio during 2017 which was offset only in part by increasing exposure in mainly retail segments. The average risk weight for credit risk significantly diminished to 32.2% as of 31 December 2017 compared to 39.7% a year earlier. This was driven by declining average risk weights across all main segments. The decrease in both RWA and the risk weights themselves was significantly strengthened by a one-off effect from implementing the IRBA approach at Modrá pyramida in 2017.

Information on consolidated capital, risk-weighted assets  
for calculation of capital adequacy and capital requirements  
(in CZK million)

### Reconciliation of accounting and regulatory capital

	31 December 2017	31 December 2016
<b>Items from Statement of Financial Position – Total shareholders' equity</b>	<b>100,346</b>	<b>105,400</b>
Share capital	19,005	19,005
Share premium	148	149
Other equity	444	405
Accumulated Other comprehensive income	2,327	14,673
Retained earnings for the previous periods	55,751	49,705
Reserve funds	4,670	4,670
Own shares	(726)	(726)
Net profit for the period	14,930	13,688
Minority interests	3,797	3,831
<b>Total adjustments to CET1</b>	<b>(23,821)</b>	<b>(33,741)</b>
Gains/(losses) on hedging instruments (cash flow hedging)	(118)	(11,379)
Additional value adjustment	(159)	(186)
Goodwill	(3,752)	(3,752)
Other intangible assets, net of tax	(4,438)	(3,648)
Insufficient coverage of expected credit losses (lack of provisions)	(1,239)	(1,522)
Unusable profit	(8,958)	(7,529)
Minority interests	(3,797)	(3,831)
Other transitional adjustments to CET 1*	(1,360)	(1,894)
<b>Tier 2 capital</b>	<b>2,560</b>	<b>0</b>
Subordinate debt	2,560	0
<b>Total capital</b>	<b>79,084</b>	<b>71,659</b>
<b>Tier 1 capital</b>	<b>76,525</b>	<b>71,659</b>
<b>Core Tier 1 (CET1) capital</b>	<b>76,525</b>	<b>71,659</b>

\* As part of gradual phase-in of Basel III rules, the regulatory capital from 1 January 2015 includes a part of the AFS revaluation reserve related to disposable securities in the AFS portfolio. As a result, Total capital and Core Tier 1 adequacy are higher by 24 bps as of 31 December 2017.

### Consolidated risk-weighted assets

	31 December 2017	31 December 2016
<b>Total risk-weighted assets</b>	<b>424,566</b>	<b>442,865</b>
<b>for credit risk</b>	<b>352,930</b>	<b>376,885</b>
for credit risk pursuant to the Standardised Approach in IRB	64,057	83,919
for credit risk pursuant to the IRB Approach	288,873	292,965
<b>for settlement risk</b>		
<b>for position, foreign exchange and commodity risks</b>	<b>24,861</b>	<b>20,321</b>
<b>for operational risk</b>	<b>43,300</b>	<b>42,327</b>
<b>for credit valuation adjustment</b>	<b>3,474</b>	<b>3,333</b>

### Capital requirements

	31 December 2017	31 December 2016
<b>Total capital requirements</b>	<b>33,965</b>	<b>35,429</b>
<b>for credit risk pursuant to the Standardised Approach in IRB</b>	<b>5,124</b>	<b>6,713</b>
Exposures to central governments or central banks		
Exposures to regional governments or local authorities		
Exposures to public sector entities	20	5
Exposures to international development banks		
Exposure to international organisations		
Exposures to institutions	29	38
Exposures to corporates	3,914	4,070
Retail exposures	774	1,538
Exposures secured by real estate		560
Exposures in default	78	164
Exposure associated with particularly high risks		
Exposure to covered bonds		
Items representing securitisation positions		
Exposures to institutions and businesses with short-term credit rating		
Exposures in the form of units of shares or shares in collective investment undertakings		
Equity exposure	236	255
Other items	73	83
<b>for credit risk pursuant to the IRB Approach</b>	<b>23,388</b>	<b>23,704</b>
Exposures to central governments or central banks	1,003	873
Exposures to institutions	1,498	2,099
Exposures to corporates	12,622	12,410
Retail exposures	7,152	7,309
Equity exposure	57	43
Items representing securitisation positions		
Other assets that are non credit-obligation	1,056	970
<b>for position risk</b>	<b>1,896</b>	<b>1,505</b>
<b>for large exposures exceeding the limits</b>		
<b>to currency risk</b>		
<b>to settlement risk</b>		
<b>to commodity risk</b>	<b>93</b>	<b>121</b>
<b>to operation risk</b>	<b>3,464</b>	<b>3,386</b>

Information in accordance with Decree 163/2014 on an individual basis (in CZK million)

## Reconciliation of accounting and regulatory capital

	31 December 2017	31 December 2016
<b>Items from Statement of Financial Position – Total shareholders' equity</b>	<b>88,604</b>	<b>93,031</b>
Share capital	19,005	19,005
Share premium	134	134
Other equity	400	371
Accumulated Other comprehensive income	2,296	14,136
Reserve funds	4,189	4,188
Retained earnings for the previous periods	48,392	41,804
Own shares	(726)	(726)
Net profit for the period	14,914	14,119
<b>Total adjustments to CET1</b>	<b>(15,982)</b>	<b>(25,768)</b>
Gains/(losses) on hedging instruments (cash flow hedging)	(488)	(11,538)
Additional value adjustment	(159)	(186)
Other intangible assets, net of tax	(3,963)	(3,214)
Insufficient coverage of expected credit losses (lack of provisions)	(1,173)	(1,548)
Unusable profit	(8,958)	(7,529)
Other transitional adjustments to CET 1	(1,241)	(1,753)
<b>Tier 2 capital</b>	<b>2,560</b>	<b>0</b>
Subordinate debt	2,560	0
<b>Total capital</b>	<b>75,181</b>	<b>67,263</b>
<b>Tier 1 capital</b>	<b>72,622</b>	<b>67,263</b>
<b>Core Tier 1 (CET1) capital</b>	<b>72,622</b>	<b>67,263</b>

## Risk-weighted assets

	31 December 2017	31 December 2016
<b>Total risk-weighted assets</b>	<b>387,330</b>	<b>397,796</b>
<b>for credit risk</b>	<b>321,672</b>	<b>337,569</b>
for credit risk pursuant to the Standardised Approach in IRB	37,435	38,091
for credit risk pursuant to the IRB Approach	284,236	299,478
<b>for settlement risk</b>		
<b>for position, foreign exchange and commodity risks</b>	<b>24,861</b>	<b>20,321</b>
<b>for operational risk</b>	<b>37,323</b>	<b>36,573</b>
<b>for credit valuation adjustment</b>	<b>3,475</b>	<b>3,333</b>

## Capital requirements

	31 December 2017	31 December 2016
<b>Total capital requirements</b>	<b>30,986</b>	<b>31,824</b>
<b>for credit risk pursuant to the Standardised Approach in IRB</b>	<b>2,995</b>	<b>3,047</b>
Exposures to central governments or central banks		
Exposures to regional governments or local authorities		
Exposures to public sector entities	20	5
Exposures to international development banks		
Exposure to international organisations		
Exposures to institutions	10	16
Exposures to corporates	1,670	1,693
Retail exposures		
Exposures secured by real estate		
Exposures in default	1	15
Exposure associated with particularly high risks		
Exposure to covered bonds		
Items representing securitisation positions		
Exposures to institutions and businesses with short-term credit rating		
Exposures in the form of units of shares or shares in collective investment undertakings		
Equity exposure	1,294	1,318
Other items		
<b>for credit risk pursuant to the IRB Approach</b>	<b>23,016</b>	<b>24,225</b>
Exposures to central governments or central banks	974	823
Exposures to institutions	1,651	2,207
Exposures to corporates	13,187	13,171
Retail exposures	6,432	7,309
Equity exposure	56	42
Items representing securitisation positions		0
Other assets that are non credit-obligation	716	673
<b>for position risk</b>	<b>1,896</b>	<b>1,505</b>
<b>for large exposures exceeding the limits</b>		
<b>to currency risk</b>		
<b>to settlement risk</b>		
<b>to commodity risk</b>	<b>93</b>	<b>121</b>
<b>to operation risk</b>	<b>2,986</b>	<b>2,926</b>

## Capital ratios and ratios in %

	31 December 2017	31 December 2016
Capital ratio for common equity tier 1	18.75	16.91
Capital ratio of Tier 1 capital	18.75	16.91
Capital ratio for total capital	19.41	16.91
Return on average assets (ROAA)	1.56	1.59
Return on average equity Tier 1 (ROAE)	21.25	22.38
Assets per employee in CZK thousand	122,516	113,280
Administrative costs per employee in CZK thousand	1,465	1,456
Profit or loss after tax per employee in CZK thousand	1,931	1,843

## Capital management

The Bank manages its capital adequacy to ensure its sufficient level while allowing for organic business growth and for potentially adverse macroeconomic developments. Under the applicable Basel III regulation of capital adequacy, in addition to the usual reporting of the capital adequacy ratio (so-called Pillar I), regulatory demands comprise also fulfilling conditions for evaluating required economic capital, stress testing and capital planning (so-called Pillar II, or the internal capital adequacy assessment process). To determine the required economic capital, the Group has selected a method close to the regulatory procedures applied for Pillar I. That has resulted in there being very similar levels of necessary economic and regulatory capital.

Given the fact that Basel III capital requirements (and particularly the required capital buffers) are still being developed, the Bank is continuously assessing the impact of their changes in the process of capital planning. As the national regulatory authority, the CNB oversees KB's compliance with capital adequacy requirements on standalone and consolidated bases. During 2017, the Bank met all regulatory requirements. On a regular basis, KB also compiles and reports to the CNB mandatory information regarding its internal system for assessing capital adequacy.

## Stress testing

As an essential part of its risk management under Pillar II, KB regularly simulates hypothetical macroeconomic scenarios involving potential adverse external macroeconomic conditions. On this basis, it estimates impacts upon its financial result and the risk profile of the Bank's business in a medium-term horizon. It subsequently generates expectations for the development of RWA (i.e. capital requirements) and financial results. The results of stress testing are among the inputs considered in determining the Bank's dividend policy. In the liquidity risk area, client behaviour and its effect on the deposit base are modelled on the basis of stress scenarios such that any possible outflow of liquidity would be very securely covered.

The results of stress testing in 2017 confirmed that KB is resistant to impacts from potential unexpected adverse developments in the Czech economy.

## Liquidity and funding

KB Group's strong liquidity position is founded upon the various types of customer deposits that it holds and the fact that the Group does not substantially use secondary financing. Thanks to the stability of its large deposit base, the Group had no need to modify the structure of its balance sheet in response to external economic developments by reducing certain types of exposures or seeking to obtain other types of funding. KB Group's strong creditworthiness is supported by its stable financial results, as well as the level of capital adequacy it has achieved. As a result, it has an excellent loan-to-deposit ratio of 78%. KB also would meet by a large margin the currently anticipated 3% required leverage ratio. This indicator confirms Komerční banka's solid position and its adequate room for further business growth.

## Funding of KB Group

Client deposits in the volume of CZK 754 billion (not including Other payables to clients) comprise a crucial part (approximately 75%) of the Group's total liabilities and shareholders' equity. Current accounts made up the largest proportion of client deposits within the Group (74%). In addition to its broad and stable base of client deposits, KB Group has other possible funding sources, including debt securities issues and loans taken. Due to its long-term liquidity surplus, Komerční banka did not increase in 2017 the volume of issued debt securities. As of the end of 2017, the total nominal amount of mortgage bonds and other debt securities placed outside KB Group reached CZK 2.7 billion.

## Liquidity management

Liquidity risk management focuses primarily on the ability of the Bank and entire Group to meet their payment obligations at all times. This includes maintaining adequate cash volumes as well as balances on nostro accounts and the mandatory minimum reserves account while not unnecessarily adding to the Bank's costs or restraining its business activities. Liquidity is maintained by rigorous cash flow management. A liquidity snapshot broken down by currency (CZK and foreign) is monitored based on indicators measuring the incoming and outgoing cash flows within particular time horizons.

Behaviour of the client deposit base and clients' use of financing are modelled (including under stress scenarios) in order to maintain a very high certainty of covering possible outflows of funds. Sufficient liquidity is managed using a system of limits. To achieve these, KB uses on- and off-balance sheet transactions on the interbank market. The Group is prudent in its strategy and uses medium- and long-term instruments which allow it to stabilise both volumes and associated costs while at the same time reflecting changes in costs when setting prices.

The Group maintains high liquidity at all times. It covered all its liabilities during 2017 from its internal sources without any problems, and the use of additional secondary funding remained limited. As of 31 December 2017, the Group was not drawing liquidity from central banks. The Group's liquidity cushion is a combination of investments in government bonds and reverse repo operations with the CNB.

Two new measures were implemented as part of Basel III regulation: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Both these regulatory indicators are simplified versions similar to those used by KB Group to measure its liquidity. Since the beginning of 2012, KB Group's LCR ratio has been consolidated into SG Group reporting and simultaneously it is reported to the CNB, the local regulator. The estimated levels of LCR and NSFR indicators have long been well above the required 100%.



# | Comments on the IFRS consolidated financial results

Komerční banka Group recorded a consolidated and audited attributable net profit of CZK 14,930 million for 2017 under International Financial Reporting Standards (IFRS). This represents a 9.1% increase in comparison with 2016.

## Income statement

At CZK 31,060 million, Komerční banka's net operating income for 2017 was lower by 2.2% from the year earlier. This comparison was markedly influenced by 2016's gain from reimbursement for KB's stake in VISA Europe Ltd. Excluding this one-off impact, the revenues were up by 0.9%. This growth was driven by net gains from financial operations, even as net interest income and net fees and commissions declined.

Net interest and similar income was down by 1.2% to CZK 20,808 million. Average yields from reinvestment of deposits were lower than in 2016, but market interest rates did begin to increase gradually. That rise was reflected positively into this item during the second half of the year. On the other hand, excessive market liquidity and intense competition caused loan spreads to decline, particularly in retail lending. The net interest margin, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, narrowed to 2.3% in 2017 from 2.5% a year earlier.

Net fee and commission income moved lower by 3.3% to CZK 6,465 million. Transaction fee income declined after KB sold during 2016's third quarter a majority stake in Cataps, its provider of merchant acquiring services. Excluding this effect, the numbers of payment transactions rose (with the exception of cash transactions). The numbers of card and foreign payments were up the most. The number of Bank clients continued to climb, but the fee income from deposit products decreased as KB introduced new account packages, including a basic one with no maintenance fee. Moreover, the number of old contracts at Modrá pyramida diminished. Fees for housing loans declined, as did fees for early loan repayment at Modrá pyramida. Net commission revenue decreased in ESSOX due to increase in commissions paid. Fees from cross-selling were higher, supported by volume growth in mutual funds and life insurance. Fees from specialised financial services rose, mainly because more services were being provided to corporate clients in Slovakia and by SGEF.

Recurring net profit on financial operations, excluding the gain from divestment of KB's stake in VISA Europe in 2016, were higher by 24.3%, at CZK 3,576 million. The non-adjusted result was down 6.8%. This year's result was boosted by clients' exceptionally strong currency hedging activity before and shortly after the CNB eliminated its floor under the CZK exchange rate on 6 April. Demand for hedging weakened in summer, as many clients had had their exposures pre hedged, but higher volatility of market rates brought a recovery in the final months of the year.

The fees and commissions from FX transactions were stable as the higher transactions turnover was offset by lower average prices for executing those transactions.

Other income rose by 29.4% to CZK 211 million. In 2017, other income primarily comprised revenues from intermediation and property rental.

Operating expenses declined by 4.6% to CZK 13,375 million. Personnel expenses were up by 4.1% at CZK 7,321 million, due to higher average remuneration and an 0.2% increase in the average number of employees to 8,492. General administrative expenses (excluding the regulatory funds) were greater by 0.8%, at CZK 4,407 million. The Group achieved some savings previously related to merchant acquiring services after sale of its subsidiary Cataps at the end of September last year. The cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) reached CZK 862 million, down 2.0% year on year. The item 'Depreciation, impairment and disposal of assets' increased by 10.1%, at CZK 1,926 million. This item contained impairment of operating assets in amount of CZK 259 million (compared to a net gain CZK 7 million in 2016), mainly due to building depreciation. The bank also completed amortisation of certain software and introduced new software. Net gain from other assets in amount of CZK 1 141 million (2016: CZK 7 million) includes mainly net gain from sale of buildings at CZK 1,052 million (2016: net loss CZK 2 million) and net gain from the impairment loss of assets held for sale in amount of CZK 77 million (2016: CZK 7 million). Recurring operating expenditures (excluding net gain in 2017 from the sale and revaluation of a part of the portfolio of headquarters buildings of CZK 817 million) climbed by 1.2% to CZK 14,191 million.

Profit before allowances for loan losses, provisions for other risk, profit on subsidiaries and income tax (gross operating income) for the full year 2017 was almost flat (-0.2%), at CZK 17,685 million. Recurring gross operating income, excluding one-off items booked in 2016 to net profit from financial operations (VISA Europe) and in 2017 to operating expenditures (revaluation and sale of headquarters buildings), improved by a slight 0.6% to CZK 16,869 million.

Cost of risk was influenced by favourable economic conditions in the Czech Republic, successful recovery performance at the Bank as well as subsidiaries, and a low volume of newly defaulted exposures. This led to an extraordinary opportunity for a net release of provisions in the amount of CZK 392 million. That compares to net provisions creation of CZK 1,818 million a year earlier. This translates into -6 bps in relative terms as measured over the average volume of the lending portfolio in 2017.

Income from shares in associated undertakings (Komerční pojišťovna) increased by 6.4% to CZK 216 million. Loss attributable to exclusion of companies from consolidation reached CZK 7 million (after a gain of CZK 727 million in 2016) related to settlement of the sale price for KB's stake in Cataps.

Income tax increased by 7.6% to CZK 3,012 million. If the tax effect of the one-off items were to be excluded, income taxes would be up by 18.1%.

KB Group's consolidated net profit for the full year 2017, at CZK 15,274 million, was 8.5% higher in comparison with the prior year. Of this amount, CZK 344 million was profit attributable to the Non-controlling owners of minority stakes in KB's subsidiaries (-10.9% versus the year earlier).

Reported net profit attributable to the Group's equity holders totalled CZK 14,930 million, which is 9.1% more than in 2016. Recurring attributable net profit (i.e. excluding one-off gains from the 2016 disposal of KB's stakes in VISA Europe and in Cataps, as well as effects from revaluation and sale of headquarters buildings in 2017) increased by 15.2% to CZK 14,035 million.

Other comprehensive income, which derives from hedging of cash flows, hedging of currency risk for foreign net investments, and profits and losses from financial assets available for sale, net of tax, reached CZK -12,462 million in comparison with CZK -2,893 million in 2016.

The Group's comprehensive income for 2017 amounted to CZK 2,812 million, down by CZK 8,369 million year on year.

## Statement of financial position

### Assets

As of 31 December 2017, KB Group's total assets had risen by 8.8% year on year to CZK 1,004.0 billion.

Cash and current balances with central banks were down by 70.9% to CZK 32.7 billion. A large component of this item is comprised of liquidity reserves at central banks. Overnight deposits with the CNB recorded in the line 'Cash and current balances with central banks' earn the discount rate (5 bps throughout 2017).

Amounts due from banks more than tripled to reach CZK 228.4 billion. The majority of this item consists in reverse repos with the central bank. At the repo tenders, the CNB's two-week repo rate serves as the maximum limit rate.

Financial assets at fair value through profit or loss (trading securities and derivatives) decreased by 36.6% to CZK 18.8 billion.

Loans and advances to customers (net) grew by 3.1% in comparison with the end of the previous year to reach CZK 598.1 billion. Total loans and advances to customers, gross without other amounts due from customers was up by 2.0% to CZK 607.4 billion and included CZK 1.3 billion of reverse repo transactions with clients.

The loan portfolio quality has improved compared to 2016. Within the loan portfolio of the Group (excluding Debt securities and Other amounts due from customers), the share of standard loans climbed to 95.3% (CZK 575.6 billion), while the proportion of loans rated watch was 1.6% (CZK 9.5 billion). Loans classified as with obligor default (substandard, doubtful and loss) comprised 3.1% of the portfolio and totalled CZK 18.6 billion. The volume of provisions created for loans came to CZK 12.7 billion. That was 18.2% less than at the close of 2016.

Available-for-sale financial assets (AFS) shrank by 24.6% to CZK 29.7 billion. Within this portfolio, debt securities totalled CZK 29.5 billion. These included CZK 19.6 billion in Czech government bonds plus foreign government bonds with value CZK 7.4 billion.

Held-to-maturity investments (HTM) diminished by 8.5% to CZK 59.9 billion. Within this portfolio, Czech government bonds totalled CZK 50.2 billion and foreign government bonds CZK 9.7 billion.

The net book value of tangible assets rose by 11.1% to CZK 7.4 billion, and that of intangible assets added 20.5% to reach CZK 4.7 billion.

Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF and ESSOX, remained unchanged at CZK 3.8 billion.

### Liabilities

Total liabilities were 10.6% higher in comparison to the close of 2016 and reached CZK 903.7 billion.

Amounts due to banks increased in 2017 by 55.3% to CZK 84.1 billion. This item represents primarily amounts drawn to cover the Group's short-term liquidity needs in certain currencies.

Amounts due to customers were up by 9.0%, reaching CZK 762.0 billion. This total included CZK 6.0 billion of liabilities from repo operations with clients and CZK 7.6 billion of other payables to customers.

The volume outstanding of securities issued plummeted by 64.0% to CZK 4.8 billion, as more bonds matured than were issued. An overview of issued bonds is provided in the Chapter Securities issued by KB.

Provisions increased by 11.5% to CZK 1.9 billion. The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise the provisions for ongoing contracted contingent commitments, legal disputes, self-insurance and the retirement benefits plan.

To reinforce its capital adequacy ratio, KB took on subordinated debt in the volume of EUR 100 million (CZK 2,560 million), with 10-year maturity and a repayment option after 5 years.

The Group's liquidity as measured by the ratio of net loans to deposits (excluding repo operations with clients) was 78.9% (compared to 83.6% as of 31 December 2016).

## Shareholders' equity

Shareholders' equity declined year to date by 4.8% to CZK 100.3 billion as accumulation of retained earnings was more than offset by decrease in revaluation reserve for cash flow hedges, reflecting higher interest rates. Revaluation of cash flow hedges and AFS bonds during their lives was driven by changes in respective interest rates and, for bonds, credit spreads. The benchmark 10-year interest swap rate had risen to 1.85% by 31 December 2017 from 0.89% on 31 December 2016. AFS revaluation gains were also influenced by gradual amortisation of securities reclassified from the AFS to the HTM portfolio in 2014. In November 2017, KB redesignated the hedging relationship of interest rate swaps from the "cash flow hedging" to the "fair value hedging" portfolio. At the date of reclassification the associated gains recognised for cash flow hedges in other comprehensive income (OCI) were insignificant. Consequently, the future movements of the interest rates will not impact the OCI from hedging derivatives. The remaining OCI from hedging derivatives will result from changes in the value of cross currency swaps.

## Expenses on research and development

In 2017, Komerční banka had outlays through operating expenses of CZK 141 million for research and development. Most of these outlays were related to development studies and implementation of individual projects, particularly in the area of information technologies and systems, including development of internet applications.

## Financial and non-financial investments

### Financial investments made by the Bank (balance as of the end of the year)

CZK million, IFRS	31 December 2017	31 December 2016
Bonds and treasury bills	82,006	103,260
Shares	240	182
Emissions allowances	996	1,839
Equity investments in subsidiary and associated undertakings*	19,936	21,535
<b>Total</b>	<b>103,178</b>	<b>126,816</b>

\* including investment in Held for sale portfolio

### Main investments – excluding financial investments\* (balance as of the end of the year)

CZK million, IFRS	31 December 2017	31 December 2016
Tangible fixed assets	4,765	4,664
Intangible fixed assets	4,189	3,428
<b>Total tangible and intangible fixed assets</b>	<b>8,954</b>	<b>8,092</b>
Tangible fixed assets held under financial leases	0	0

Note: \* Net book value of investments. See also Notes to the Separate Financial Statements according to IFRS, notes No. 25 – Intangible fixed assets and 26 – Tangible fixed assets.

## Main ongoing investments – excluding financial investments

In 2017, the Bank made non-financial investments in a total CZK 2.6 billion. Most of this amount was invested in the area of information technologies (almost CZK 1.5 billion) for acquisition and development of software and hardware. A significant part of the total amount was invested into development and reconstruction of branch network, real estate owned by the Bank and ATMs. All of the non-financial investments were made in the Czech Republic and Slovakia and were financed from internal resources.

### Main investments planned by the Bank – excluding financial investments

The investments planned by Komerční banka for 2018 should not exceed CZK 2.4 billion. The Bank will continue to invest mainly in the maintenance and development of the distribution network, as well as the quality of provided services and operational efficiency, including investments into information technologies. The Bank's investment plans may be adjusted in accordance with developments in the economic environment.

## Description of real estate owned by KB Group

Komerční banka Group manages real estate used especially to conduct those business activities for which it is licensed under the applicable legal regulations.

### Summary of the real estate managed by the Bank:

As of 31 December 2017	Number	Of which owned by KB
Buildings in the Czech Republic	602	93
Buildings in the Slovak republic	2	0
<b>Total</b>	<b>604</b>	<b>93</b>

Note: See also the Notes to the Consolidated Financial Statements prepared in accordance with IFRS, notes No. 19 – Assets held for sale and 26 – Tangible assets.

## Trademarks, licences and sublicenses

In 2017, Komerční banka used trademarks for labelling its products and services both in the Czech Republic and the Slovak Republic. The new trademarks used were registered with the Industrial Property Office in the Czech Republic.

Komerční banka registered with the Czech Industrial Property Office a total number of 183 trademarks. In the case of a further 9 trademarks, a registration process has been initiated but the process has not yet been completed. In the Slovak Republic, 7 trademarks are registered with the Industrial Property Office of the Slovak Republic.

Within the KB Group, Komerční banka provides some of its subsidiaries with licenses for its trademarks. In some cases, Komerční banka, is also a licensee and sub-licensee, typically from providers of IT services.

## Definitions of the mentioned Alternative Performance Measures

**Earnings per share:** 'Net profit attributable to the Group's equity holders' divided by the quantity average number of shares issued minus the average number of own shares in treasury

**Return on average equity (ROAE, in consolidated statements):** 'Net profit attributable to the Group's equity holders' divided by the quantity average 'Total equity' less 'Non-controlling interest'

**Average 'Total equity' less 'Non-controlling interest:** (('Total equity' less 'Non-controlling interest' as of the year end X) plus ('Total equity' less 'Non-controlling interest' as of the year end X-1)) divided by 2

**Return on average equity (ROAE, in separate statements):** 'Net profit for the period' divided by the quantity average 'Total equity'

**Average 'Total equity':** ('Total equity' as of the year end X plus 'Total equity' as of the year end X-1) divided by 2

**Return on average assets (ROAA, in consolidated statements):** 'Net profit attributable to the Group's equity holders' divided by average 'Total assets'

**Average total assets:** ('Total assets' as of the year end X plus 'Total assets' as of the year end X-1) divided by 2

**Return on average assets (ROAA, in separate statements):** 'Net profit for the period' divided by average 'Total assets'

**Net interest margin (NIM):** ('Net interest income and similar income' minus 'Dividend income') divided by average interest-earning assets (IEA)

**Average interest-earning assets:** ('Total interest-earning assets' as of the year end X plus 'Total interest-earning assets' as of the year end X-1) divided by 2

**Interest-earning assets (IEA)** comprise 'Amounts due from banks', 'Cash and current balances with central banks' ('Current balances with central banks' only), 'Loans and advances to customers', 'Financial assets at fair value through profit or loss' ('Total debt securities' only), 'Available-for-sale financial assets' ('Total debt securities available-for-sale' only), 'Held to maturity investments';

## Reconciliation of 'Net interest margin' calculation, (CZK million, consolidated):

(Source: Profit and Loss Statement)	2017	2016
<b>Net interest income and similar income (excl. 'Dividend income')</b>	<b>20,804</b>	<b>21,065</b>

(Source: Balance Sheet)	31 Dec 2017	31 Dec 2016	31 Dec 2015
'Amounts due from banks' + 'Cash and current balances with central banks' ('Current balances with central banks' only)	250,967	155,016	164,778
'Loans and advances to customers', net	598,102	580,198	532,617
'Financial assets at fair value through profit or loss' ('Total debt securities' only)	1,633	9,606	7,872
'Available-for-sale financial assets' ('Total debt securities' only),	29,471	39,238	41,189
'Held to maturity investments'	59,915	65,462	67,083
<b>Interest-bearing assets</b>	<b>940,088</b>	<b>849,520</b>	<b>813,540</b>
<b>Average interest-bearing assets</b>	<b>894,804</b>	<b>831,530</b>	
<b>Net interest margin</b>	<b>2.3%</b>	<b>2.5%</b>	

**Cost to income ratio:** 'Total operating expenses' divided by 'Net operating income'

**Cost of risk in relative terms:** 'Allowances for loan losses' divided by the average of 'Gross amount of client loans and advances'

**Average of Gross amount of client loans and advances:** ('Gross amount of client loans and advances' as of the year end X plus 'Gross amount of client loans and advances' of the year end X-1) divided by 2

**Gross amount of client loans and advances:** 'Total loans and advances to customers, gross' minus 'Other amounts due from customers'

**Net loans to deposits:** ('Loans and advances to customers' (net) less 'reverse repo operations with clients') divided by the quantity (total 'Amounts due to customers' less 'repo operations with clients')

# Consolidated Financial Statements

prepared in accordance with International Financial Reporting Standards as adopted by the European Union as of 31 December 2017



## Consolidated Statement of Income and Consolidated Statement of Comprehensive Income for the year ended 31 December 2017

### Consolidated Statement of Income for the year ended 31 December 2017

(CZK m)	Note	2017	2016
Interest income and similar income	5	26,646	26,757
Interest expense and similar expense	5	(5,842)	(5,692)
Dividend income	5	4	2
<b>Net interest income and similar income</b>		<b>20,808</b>	<b>21,067</b>
Net fee and commission income	6	6,465	6,683
Net profit/(loss) on financial operations	7	3,576	3,837
Other income	8	211	163
<b>Net operating income</b>		<b>31,060</b>	<b>31,750</b>
Personnel expenses	9	(7,321)	(7,029)
General and administrative expenses	10	(5,269)	(5,254)
Depreciation, amortisation and impairment of operating assets	11	(1,926)	(1,750)
Net profits on other assets	11	1,141	7
<b>Total operating expenses</b>		<b>(13,375)</b>	<b>(14,026)</b>
<b>Profit before allowances for loan losses, provisions for other risk, profit on subsidiaries and income tax</b>		<b>17,685</b>	<b>17,724</b>
Allowances for loan losses	12	387	(1,843)
Provisions for other risk expenses	12	5	25
<b>Cost of risk</b>		<b>392</b>	<b>(1,818)</b>
Income from share of associated undertakings		216	203
Profit/(loss) attributable to exclusion of companies from consolidation		(7)	727
Gain on a bargain purchase		0	37
<b>Profit before income tax</b>		<b>18,286</b>	<b>16,873</b>
Income tax	13	(3,012)	(2,799)
<b>Net profit for the period</b>	<b>14</b>	<b>15,274</b>	<b>14,074</b>
Profit attributable to the Non-controlling owners		344	386
Profit attributable to the Group's equity holders		14,930	13,688
<b>Earnings per share/diluted earnings per share (in CZK)</b>	<b>15</b>	<b>79.05</b>	<b>72.48</b>

The accompanying Notes form an integral part of these Consolidated Financial Statements.

### Consolidated Statement of Comprehensive Income for the year ended 31 December 2017

(CZK m)	Note	2017	2016
<b>Net profit for the period</b>	<b>14</b>	<b>15,274</b>	<b>14,074</b>
<b>Items that will not be reclassified to the Statement of Income</b>			
Remeasurement of retirement benefits plan, net of tax	40	(23)	(93)
<b>Items that may be reclassified subsequently to the Statement of Income</b>			
Cash flow hedging			
– Net fair value gain/(loss), net of tax	41	(8,586)	1,959
– Transfer to net profit/(loss), net of tax	41	(2,674)	(3,233)
Foreign exchange gain/(loss) on hedge of a foreign net investment		142	(4)
Foreign exchange difference on translation of a foreign net investment		(154)	4
Net value gain/(loss) on available-for-sale financial assets, net of tax	42	(1,056)	(1,536)
Net value gain/(loss) on available-for-sale financial assets, net of tax (associated undertakings)	24	(111)	10
<b>Other comprehensive income for the period, net of tax</b>		<b>(12,462)</b>	<b>(2,893)</b>
<b>Total comprehensive income for the period, net of tax</b>		<b>2,812</b>	<b>11,181</b>
Comprehensive income attributable to the Non-controlling owners		340	386
Comprehensive income attributable to the Group's equity holders		2,472	10,795

The accompanying Notes form an integral part of these Consolidated Financial Statements.

## Consolidated Statement of Financial Position as of 31 December 2017

(CZKmn)	Note	31 December 2017	31 December 2016
<b>ASSETS</b>			
Cash and current balances with central banks	16	32,663	112,241
Financial assets at fair value through profit or loss	17	18,841	29,709
Positive fair value of hedging financial derivatives	43	13,408	22,331
Available-for-sale financial assets	18	29,712	39,420
Assets held for sale	19	319	906
Amounts due from banks	20	228,374	51,771
Loans and advances to customers	21	598,102	580,198
Revaluation differences on portfolios hedge items		(251)	32
Held-to-maturity investments	22	59,915	65,462
Current tax assets		42	86
Deferred tax assets	34	70	78
Prepayments, accrued income and other assets	23	5,823	4,919
Investments in associates	24	1,181	1,280
Intangible assets	25	4,684	3,886
Tangible assets	26	7,404	6,666
Goodwill	27	3,752	3,752
<b>Total assets</b>		<b>1,004,039</b>	<b>922,737</b>
<b>LIABILITIES AND EQUITY</b>			
Amounts due to central banks		1	1
Financial liabilities at fair value through profit or loss	28	19,304	18,167
Negative fair value of hedging financial derivatives	43	10,329	9,428
Amounts due to banks	29	84,050	54,124
Amounts due to customers	30	762,043	699,377
Revaluation differences on portfolios hedge items		(1,468)	762
Securities issued	31	4,832	13,423
Current tax liabilities		263	360
Deferred tax liabilities	34	999	3,830
Accruals and other liabilities	32	18,869	16,150
Provisions	33	1,911	1,714
Subordinated debt	35	2,560	0
<b>Total liabilities</b>		<b>903,693</b>	<b>817,336</b>
Share capital	36	19,005	19,005
Share premium and reserves		77,544	82,565
Non-controlling interest		3,797	3,831
<b>Total equity</b>		<b>100,346</b>	<b>105,401</b>
<b>Total liabilities and equity</b>		<b>1,004,039</b>	<b>922,737</b>

The accompanying Notes form an integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Board of Directors on 6 March 2018.

Signed on behalf of the Board of Directors:



**Jan Juchelka**

Chairman of the Board of Directors and Chief Executive Officer



**Libor Löffler**

Member of the Board of Directors and Chief Operating Officer

## Consolidated Statement of Changes in Equity for the year ended 31 December 2017

(CZKm)	Share capital	Capital funds and retained earnings/**	Remeasurement of retirement benefits plan	Revaluation of hedging instruments	Translation of a foreign net investment	Available-for-sale financial assets	Total equity	Non-controlling interest	Total equity, including non-controlling interest
<b>Balance as of 31 Dec 2015</b>	<b>19,005</b>	<b>65,832</b>	<b>(38)</b>	<b>12,653</b>	<b>1</b>	<b>4,960</b>	<b>102,413</b>	<b>3,816</b>	<b>106,229</b>
Treasury shares, other	0	145	0	0	0	0	145	4	149
Payment of dividends	0	(11,783)	0	0	0	0	(11,783)	(375)	(12,158)
<b>Transactions with owners</b>	<b>0</b>	<b>(11,638)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(11,638)</b>	<b>(371)</b>	<b>(12,009)</b>
Profit for the period	0	13,688	0	0	0	0	13,688	386	14,074
Other comprehensive income for the period, net of tax	0	10**	(93)	(1,274)	0	(1,536)	(2,893)	0	(2,893)
<b>Comprehensive income for the period</b>	<b>0</b>	<b>13,698</b>	<b>(93)</b>	<b>(1,274)</b>	<b>0</b>	<b>(1,536)</b>	<b>10,795</b>	<b>386</b>	<b>11,181</b>
<b>Balance as of 31 Dec 2016</b>	<b>19,005</b>	<b>67,892</b>	<b>(131)</b>	<b>11,379</b>	<b>1</b>	<b>3,424</b>	<b>101,570</b>	<b>3,831</b>	<b>105,401</b>
Treasury shares, other	0	109	0	0	0	0	109	1	110
Payment of dividends	0	(7,602)	0	0	0	0	(7,602)	(375)	(7,977)
<b>Transactions with owners</b>	<b>0</b>	<b>(7,493)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(7,493)</b>	<b>(374)</b>	<b>(7,867)</b>
Profit for the period	0	14,930	0	0	0	0	14,930	344	15,274
Other comprehensive income for the period, net of tax	0	(111)**	(23)	(11,260)	(8)	(1,056)	(12,458)	(4)	(12,462)
<b>Comprehensive income for the period</b>	<b>0</b>	<b>14,819</b>	<b>(23)</b>	<b>(11,260)</b>	<b>(8)</b>	<b>(1,056)</b>	<b>2,472</b>	<b>340</b>	<b>2,812</b>
<b>Balance as of 31 Dec 2017</b>	<b>19,005</b>	<b>75,218</b>	<b>(154)</b>	<b>119</b>	<b>(7)</b>	<b>2,368</b>	<b>96,549</b>	<b>3,797</b>	<b>100,346</b>

\* Capital funds and retained earnings consist of other funds created from profit in the amount of CZK 4,671 million (2016: CZK 4,670 million), share premium, treasury shares and share-based transactions in the amount of CZK -134 million (2016: CZK -171 million), net profit from the period in the amount of CZK 14,930 million (2016: CZK 13,688 million) and retained earnings in the amount of CZK 55,751 million (2016: CZK 49,705 million).

\*\* This amount represents the gain from the revaluation of available-for-sale financial assets (the impact of the consolidation of an associated company using the equity method).

The accompanying Notes form an integral part of these Consolidated Financial Statements.

## Consolidated Statement of Cash Flows for the year ended 31 December 2017

(CZKmn)	Restated**	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received	24,166	24,026
Interest paid	(2,793)	(4,287)
Fee and commission received	7,631	7,915
Fee and commission paid	(1,404)	(1,407)
Net cash received from financial operations	2,298	2,399
Other receipts	106	110
Cash payments to employees and suppliers, and other payments	(11,853)	(12,450)
<b>Operating cash flow before changes in operating assets and operating liabilities</b>	<b>18,151</b>	<b>16,306</b>
Amounts due from banks (received/paid)	(178,431)	(4,394)
Financial assets at fair value through profit or loss	8,521	(507)
Loans and advances to customers	(19,193)	(43,765)
Other payments received	(688)	118
<b>(Increase)/decrease in operating assets</b>	<b>(189,791)</b>	<b>(48,548)</b>
Amounts due to banks (received/paid)	25,371	(6,192)
Financial liabilities at fair value through profit or loss	1,756	(1,329)
Amounts due to customers	60,887	43,492
Other payments made	2,751	145
<b>Increase/(decrease) in operating liabilities</b>	<b>90,765</b>	<b>36,116</b>
Net cash flow from operating activities before taxes	(80,875)	3,855
Income tax paid	(3,093)	(2,335)
<b>Net cash flow from operating activities</b>	<b>(83,968)</b>	<b>1,520</b>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>		
Dividends received	208	154
Purchase of held-to-maturity investments	0	(6,005)
Maturity of held-to-maturity investments*	5,808	8,640
Purchase of available-for-sale financial assets	(3,314)	(1,353)
Sale and maturity of available-for-sale financial assets*	11,631	3,762
Purchase of tangible and intangible assets	(2,915)	(2,089)
Sale of tangible and intangible assets	363	57
Purchase of investments in subsidiaries and associates	(183)	(885)
Sale of investments in subsidiaries and associates	1,486	727
Effect of acquisition of companies	0	(157)
<b>Net cash flow from investment activities</b>	<b>13,084</b>	<b>2,851</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(7,537)	(11,735)
Dividends paid to non-controlling interest	(375)	(375)
Securities issued	2,068	0
Securities redeemed*	(10,980)	(8,351)
Subordinated debt	2,560	0
<b>Net cash flow from financing activities</b>	<b>(14,264)</b>	<b>(20,461)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(85,148)</b>	<b>(16,071)</b>
Cash and cash equivalents at the beginning of the year	110,063	126,132
Foreign exchange differences on cash and cash equivalents at beginning of year	(247)	2
Deconsolidation of Transformed Fund	(360)	0
<b>Cash and cash equivalents at the end of the year (refer to Note 37)</b>	<b>24,308</b>	<b>110,063</b>

\* The amount also includes coupons received and paid.

\*\* For the detail of restatement, refer to Note 37.

The accompanying Notes form an integral part of these Consolidated Financial Statements.

# Notes to the Consolidated Financial Statements as of 31 December 2017

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# 1 Principal activities

The Financial Group of Komerční banka, a.s. (henceforth the “Group”) consists of Komerční banka, a.s. (the “Bank”) and 12 subsidiaries and three associated undertakings. The parent company of the Group is the Bank, which is incorporated in the Czech Republic as a joint-stock company. The principal activities of the Bank are as follow:

- I. Providing loans, advances and guarantees in Czech crowns and foreign currencies;
- II. Acceptance and placement of deposits in Czech crowns and foreign currencies;
- III. Providing current and term deposit accounts in Czech crowns and foreign currencies;
- IV. Providing banking services through an extensive branch network in the Czech Republic;
- V. Treasury operations in the interbank market;
- VI. Servicing foreign trade transactions;
- VII. Investment banking.

The Bank generates the preponderant proportion of the Group’s income and represents substantially all of the assets and liabilities of the Group.

The registered office address of the Bank is Na Příkopě 33/969, 114 07 Prague 1.

In addition to its operations in the Czech Republic, the Group has operations in Slovakia through its foreign branch (Komerční banka, a.s., pobočka zahraničnej banky) and its subsidiary (PSA FINANCE SLOVAKIA, s.r.o.) and in Belgium through its subsidiary (Bastion European Investments S.A).

The Bank’s ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale S.A. is the Bank’s majority shareholder, holding 60.35% (2016: 60.35%) of the Bank’s issued share capital.

## *The main activities of the Bank’s subsidiary companies as of 31 December 2017:*

Company's name	Direct holding %	Group holding %	Principal activity	Registered office
KB penzijní společnost, a.s.	100.0	100.0	Financial services	Prague
Modrá pyramida stavební spořitelna, a.s.	100.0	100.0	Building society	Prague
Protos uzavřený investiční fond, a.s.	83.65	100.0	Investments	Prague
Factoring KB, a.s.	100.0	100.0	Factoring	Prague
Bastion European Investments S.A.	99.98	99.98	Financial services	Brussels
KB Real Estate s.r.o.	100.0	100.0	Support services	Prague
STD2, a.s.	100.0	100.0	Support services	Prague
VN 42, s.r.o.	100.0	100.0	Support services	Prague
SG Equipment Finance Czech Republic s.r.o.	50.1	50.1	Industry financing	Prague
ESSOX s.r.o.	50.93	50.93	Consumer loans, leasing	České Budějovice
PSA FINANCE ČESKÁ REPUBLIKA, s.r.o.	0.0	50.93	Consumer loans, leasing	Prague
PSA FINANCE SLOVAKIA, s.r.o.	0.0	50.93	Consumer loans, leasing	Bratislava

## *The main activities of the Bank’s associated undertakings as of 31 December 2017:*

Company's name	Direct holding %	Group holding %	Principal activity	Registered office
Komerční pojišťovna, a.s.	49.0	49.0	Insurance	Prague
Czech Banking Credit Bureau, a.s.	20.0	20.0	Data collection for credit risk assessments	Prague
Cataps, s.r.o.	20.0	20.0	Financial services	Prague

## 2 Events for the year ended 31 December 2017

### Dividends declared in respect of the year ended 31 December 2016

At the General Meeting held on 25 April 2017, the shareholders approved a dividend for the year ended 31 December 2016 of CZK 40 per share before tax. The dividend was declared in the aggregate amount of CZK 7,602 million and the remaining balance of the net profit was allocated to retained earnings. The dividends were paid out in Czech crowns. Moreover, the Group paid out CZK 231 million in dividends to non-controlling owners of ESSOX s.r.o. and CZK 144 million to non-controlling owners of SG Equipment Finance Czech Republic.

### Change in the Chief Executive Officer and Chairman of the Board of Directors of the Bank

Albert Le Dirac'h, the Chief Executive Officer and Chairman of the Board of Directors, retired from his position in the Bank as at 2 August 2017. The Supervisory Board of the Bank elected Jan Juchelka a member of the Board of Directors with effect from 3 August 2017. The Board of Directors of the Bank subsequently elected Jan Juchelka Chairman of the Board of Directors and appointed him Chief Executive Officer with effect from the same date.

### Change to the position of member of the board responsible for risk management

The Supervisory Board of the Bank elected Didier Colin as a member of the Board of Directors with effect from 1 October 2017.

### Acceptance of subordinated debt

In relation to optimising capital structure, the Bank took on subordinated debt of EUR 100 million (equivalent to CZK 2,554 million) granted by its parent company, Société Générale S.A., in October 2017. The subordinated debt qualified as Tier 2 regulatory capital and strengthened the Bank's capital buffer in response to increasing regulatory capital requirements while enhancing the Bank's capacity to grow risk-weighted assets.

### Changes in the Bank's financial group

In March 2017, the Bank sold its subsidiary NP 33, s.r.o. to CRI NP 33, s.r.o., which is owned by Commerz Real Investmentgesellschaft mbH. NP 33, s.r.o. is sole owner of the Bank's headquarters building at Na Příkopě 33 in Prague. The sale constitutes part of the Bank's plan to centralise its headquarters into fewer premises.

In May 2017, the equity in Bastion European Investments S.A. was decreased by EUR 3.8 million (equivalent to CZK 108 million). The equity in Bastion European Investments S.A. was again decreased by EUR 5 million (equivalent to CZK 142 million) in October 2017. Both decreases were initiated solely by the Bank as the majority shareholder of Bastion European Investments S.A.

In October 2017, the Bank acquired the company Office Center Stodůlky a.s., which is owner of the new office building in Prague – Stodůlky. Completion of the building is expected in mid-2018, and the acquisition constitutes part of the Bank's plan to centralise its headquarters into fewer premises. Following the acquisition, the company was renamed to STD2, a.s. (registered as of 31 October 2017).

In December 2017, the Bank decreased the capital of its subsidiary Protos, uzavřený investiční fond, a.s. through decreasing the reserve fund and the share premium by CZK 1,550 million. The share of the Bank in this decrease was CZK 1,297 million, which reflects the Bank's 83.65% ownership share. The remaining ownership is held by Factoring KB, a.s., which is itself fully owned by the Bank.

## 3 Principal accounting policies

The principal accounting policies followed in the preparation of these Consolidated Financial Statements are set out below.

### 3.1 Statement of compliance with IFRS

The Consolidated Financial Statements are prepared pursuant to and comply with International Financial Reporting Standards (hereafter only "IFRS") as adopted by the European Union and effective for the annual period beginning on 1 January 2017.

The presented Consolidated Financial Statements for the year ended 31 December 2017 are prepared on the basis of current best estimates. The management of the Group believes that these present a true and fair view of the Group's financial results and financial position using all relevant and available information as of the financial statements date.

### 3.2 Underlying assumptions of the Consolidated Financial Statements

#### 3.2.1 Accrual basis

The Consolidated Financial Statements are prepared on an accrual accounting basis (i.e. the effects of transactions and other events are recognised when they occur and are reported in the Consolidated Financial Statements for the period to which they relate).

The exception is the Consolidated Statement of Cash Flows, which is prepared on a cash basis (i.e. it presents cash inflows and outflows during the reporting period without regard to the period to which each transaction relates).

### **3.2.2 Going concern**

The Consolidated Financial Statements are prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. The Group has neither the intention nor the need to liquidate or materially curtail the scale of its operations.

### **3.2.3 Reporting period**

The Group reports for a 12-month period which is identical to the calendar year.

## **3.3 Basis of preparation**

### **3.3.1 Presentation currency**

The Consolidated Financial Statements are presented in Czech crowns (hereafter only "CZK"), which constitute the Group's presentation currency. The balances shown are stated in CZK million unless indicated otherwise.

### **3.3.2 Historical cost**

The Consolidated Financial Statements are prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and hedging derivatives and hedge items in fair value hedge accounting, whose items are measured at fair value.

Assets held for sale are measured at the lower of their (i) fair value less cost to sell, or (ii) carrying amount just prior to reclassification into 'Assets held for sale'.

### **3.3.3 Significant accounting judgements and estimates**

In applying the accounting policies for the purpose of preparing the Consolidated Financial Statements in accordance with IFRS, it is necessary for the Group's management to use professional judgement and make estimates and assumptions. These impact upon reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the financial statements date and the reported amounts of revenues and expenses during the reporting period. These estimates and judgements are based on the information available as of the financial statements date and they relate especially to the determination of:

- Fair values in the Statement of Financial Position of financial instruments not quoted in an active market which are classified as financial assets or liabilities at fair value through profit or loss, hedging derivatives or available-for-sale financial assets (refer to Note 3.5.5);
- The value of intangible assets, except goodwill (refer to Note 3.5.9);
- The amount of impairment of assets (refer to Notes 3.5.5, 3.5.9 and 3.5.10);
- Provisions recognised under liabilities (refer to Note 3.5.11);
- The initial value of goodwill for each business combination (refer to Note 3.5.10);
- The amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies (refer to Note 3.5.7); and
- Assessment of the substance of participation interest in Group entities (refer to Note 3.3.4).

Information about the key judgements and assumptions concerning the future and other key sources of estimation uncertainty as of the financial statements date that have a significant risk of causing material adjustment to the carrying values of assets and liabilities are disclosed in individual notes as appropriate.

### **3.3.4 Basis of consolidation**

The Consolidated Financial Statements incorporate the financial statements of the Bank and of its subsidiaries. A subsidiary is an entity over which the Bank has control, i.e. the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When assessing the control, the Group considers all relevant facts and circumstances while taking into account particularly voting rights, potential voting rights and contractual arrangements. This assessment may require usage of accounting judgements. Subsidiaries are consolidated using the full method of consolidation from the date when the Bank obtains control to the date when the Bank ceases to exercise control over such entity.

The financial statements of the consolidated subsidiaries used to prepare the Consolidated Financial Statements were prepared as of the Bank's financial statements date and using consistent accounting policies. The assets and liabilities of foreign subsidiaries and branches are translated into the Bank's presentation currency at the rate of exchange as of the Bank's financial statements date, and their items of income and expense are translated at the monthly average exchange rates for the respective month of a given transaction. Exchange differences arising on translation are taken directly to a separate component of equity. The consolidation principles are unchanged as against the previous year. All intragroup transactions, balances, income and expenses were eliminated in full.

Investments in associates are presented in the Consolidated Financial Statements using the equity method. An associate is an entity in which the Bank has significant influence, i.e. it directly or indirectly owns 20% to 50% of voting rights but it does not exercise control. Equity accounting involves recognising in the Consolidated Statement of Income and in the Consolidated Statement of Comprehensive

Income the Group's share of the associates' profit or loss for the period and comprehensive income for the period. The Group's interest in the associates in the Statement of Financial Position is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee.

### 3.4 Application of new and revised IFRS

#### 3.4.1 Standards and interpretations newly applied by the Group in the current period

The following standards, interpretations and amendments were newly applied by the Group as from 1 January 2017. They have no impact in the current period (and/or prior period).

Standard	Impact/Comments
Recognition of Deferred Tax Assets for Unrealised Losses  (Amendments to IAS 12 Income Taxes)	The amendments clarify how to account for a deferred tax asset that is related to debt instruments measured at fair value for accounting purposes and at cost for tax purposes in circumstances in which changes in the market interest rate decrease the fair value below cost. This applies irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. The amendments also clarify that the carrying amount of an asset does not limit the estimation of probable future taxable profits.
Disclosure Initiative  (Amendments to IAS 7 Statement of Cash Flows)	The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The following changes shall be disclosed (to the extent necessary): changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes.

#### 3.4.2 Issued standards and interpretations not applied for the current period

Although the following standards, interpretations and amendments had been issued, they are not yet effective for the reporting period beginning on 1 January 2017 and the Group has decided not to adopt them early. The Group has decided not to adopt early the standards and interpretations which were already approved by the European Commission.

Currently, the Group does not anticipate that their application will significantly impact the Group's financial position and financial performance for the reporting period, with the exception of IFRS 9 Financial Instruments and IFRS 16 Leases.

##### IFRS 9 Financial Instruments

IFRS 9 Financial Instruments supersedes the existing standard IAS 39. It introduces a new approach to the classification and measurement of financial assets, a new credit risk impairment methodology and new hedge accounting rules, except accounting for portfolio hedging for which the IASB has a separate project (the first discussion paper was issued in April 2014).

Application of the new classification and measurement methodology means that financial assets must be classified upon initial application of the standard based on both the entity's business model for managing the financial assets (hold to collect, hold to collect and sell, other business models) and the financial asset's contractual cash flow characteristics, i.e. applying of the "solely payment of principal and interest" test (SPPI). Based on business model determination and consideration of contractual cash flow characteristics, financial assets will be newly measured at amortised cost, at fair value through profit or loss, or at fair value through other comprehensive income.

No impact on classification and measurement is expected for the following financial assets which will continue to be measured on the same basis under IFRS 9: debt instruments classified in the current fair value through profit or loss portfolio and equity instruments classified in the available-for-sale portfolio, for which the Group has decided to use the irrevocable election at initial recognition to measure these at fair value with changes to be recognised in other comprehensive income.

With the exception of a bond issued by SGA Société Générale Acceptance N.V. and held in Bastion European Investments S.A. (currently measured at amortised costs and newly to be measured at fair value through profit or loss), the loans and debt instruments currently classified as loans and receivables, held-to-maturity and available-for-sale meet the SPPI characteristics and will be classified based on the relevant business models, thus causing a part of the bonds to change their measurement basis. The bonds forming part of the liquidity buffer are classified into business models as follows: (i) all the EUR-denominated government bonds (or quasi-government bonds of CEB and EIB) and new investments from 1 January 2018 onwards into CZK-denominated bonds with maturity longer than 12 years under the business model hold to collect and sell and hence measured at fair value through other comprehensive income; (ii) all current CZK-denominated government bonds (or quasi-government bonds) and corporate bonds and new investments from 1 January 2018 onwards into CZK-denominated bonds with maturity up to 12 years under the business model hold to collect and thus measured at amortised costs. The bonds not constituting part of the liquidity buffer are classified into business models as follows: (i) bonds meeting the SPPI characteristics under the business model hold to collect and hence measured at amortised costs; (ii) bonds not meeting the SPPI characteristics under the business model held-for-trading and hence measured at fair value through profit or loss.

Accordingly, as of 1 January 2018, the remaining balance of unamortised revaluation reserve in Other Comprehensive Income from the reclassification in 2014 of certain bonds from the available-for-sale to held-to-maturity portfolio and also the revaluation reserve from available-for-sale bonds newly measured at amortised costs under IFRS 9 will be both removed from equity and adjusted against the carrying amount of the financial assets. Similarly, the related deferred tax will be in both cases removed from equity. The revaluation of bonds currently measured at amortised costs and newly measured at fair value through other comprehensive income and the related deferred tax will be recognised in Other Comprehensive Income.

The application of the new impairment methodology, superseding the current IAS 39 incurred loss model, means earlier recognition of expected credit losses from the point at which financial instruments originate or are acquired. The Group will use the existing methodology developed and used for IRB purposes adjusted to comply with the IFRS 9 Société Générale Group methodology. In particular, the Group will use existing rating and loss estimation models with dedicated calibration enriched with a forward-looking approach based on macroeconomic predictions. For the purpose of classifying individual loans and clients into stages defined by IFRS 9, the Group will use, in particular, the relative criteria, supplemented by absolute criteria as well. The Group defines significant increase of credit risk through relative criteria (e.g. increase in transaction PD value since origination) and absolute criteria (e.g. days past due, client's rating). For portfolios covered by an advanced approach to capital adequacy (IRBA), the Group is using synergies of loss allowances calculations according to IFRS 9 with the risk-weighted assets calculation (the usage of the same statistical models in both calculations) and regular stress-testing approach (forward-looking predictions in IFRS 9 calculations to be the same as in the regular stress testing). During 2017, the Group was implementing the IFRS 9 requirements. Technical implementation has been finalised and is based on the utilisation of existing IT tools. The Bank also supported subsidiaries in implementing IFRS 9 and updating current interfaces necessary for preparing the Consolidated Financial Statements.

In the area of the hedge accounting, IFRS 9 provides entities with an accounting policy choice: either to continue to apply existing requirements in IAS 39 for all hedge relationships until the portfolio hedging project is completed or to apply the hedge accounting requirements of IFRS 9, including the possibility to use the scope exception for fair value hedge accounting for a portfolio hedge of interest rate risk. The Group has decided to continue with the application of the hedge accounting methods in accordance with IAS 39 as adopted in the European Union.

Also, expanded disclosures and changes in presentation will have to be taken into account based on the new and amended requirements in IFRS 7 Financial Instruments: Disclosures, as triggered by IFRS 9. In addition, special disclosure requirements apply in the period of initial application of IFRS 9.

For the transitional purposes, the Group will use the relief from restating comparative information. Any differences from the initial application of the standard will be recognised in equity with an estimated negative impact after tax of CZK 2,183 million, of which the estimated negative impact from classification and measurement changes is CZK 1,439 million and the estimated increase of the loss allowances net of tax from the first time application of the standard is CZK 744 million. From a capital adequacy perspective, it is expected that the overall impact will be a negligible decrease in regulatory capital. The removal of the remaining unamortised revaluation reserve in Other Comprehensive Income from the reclassification in 2014 of certain debt securities from the available-for-sale to held-to-maturity portfolio will not impact regulatory capital as the revaluation reserve was deducted from the regulatory capital before the transition. The estimated increase of the loss allowances net of tax from the first time application of the standard will have a negligible impact into regulatory capital, since this estimated increase will be compensated by release of lack of provisions, which is deductible item from the regulatory capital. Lack of provisions comes from different provisioning in accounting and CRR regulatory expected loss.

#### IFRS 16 Leases

IFRS 16 Leases replaces the current standard IAS 17. The new standard will fundamentally change the accounting from the lessee's point of view when ceasing to distinguish between finance leases and operating leases, and instead introducing a single on-balance sheet accounting model. This will be applicable for almost all leases with the optional exceptions for short-term leases and leases for which the underlying asset is of low value. The accounting by lessors under the new standard is substantially unchanged from today's accounting in IAS 17.

The Bank has already carried out the initial assessment and identified potential areas to be impacted by the application of the new IFRS 16 requirements. The Bank as a lessee under operating lease of office buildings and branches, in particular, will need to recognise those leases on the balance sheet, thereby causing an increase of assets (right-of-use assets) and liabilities (lease liabilities). In addition, the nature of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expenses with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including in particular the composition of the lease portfolio as of 1 January 2019, the assessment of the periods covered by extension or termination options, the Bank's borrowing rate at that date and the extent to which the practical expedients and recognition exemptions will be used. The Bank intends to apply the standard retrospectively using the cumulative catch-up approach, i.e. without restatement of comparative information and with the recognition in equity of the cumulative effect of initially applying the standard. Processes and systems need to be evaluated to comply with the increased disclosure requirements.



The Bank is assessing the potential effects of IFRS 16 on its capital adequacy requirements and resolution fund contribution. Based on the Basel Committee responses to IFRS 16, unless otherwise specified by the prudential regulator, a right-of-use asset should be treated for regulatory capital purposes according to the underlying asset, i.e. distinguishing tangible and intangible assets, and applying the risk-weight of 100% in case of tangible underlying asset.

Standard	Summarised content	Effective for reporting period beginning on or after
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures)	The amendment clarifies the accounting treatment for sale or contribution of assets between an investor and its associates or joint ventures. It resolves a current inconsistency between the existing requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures on how to calculate any gain or loss arising from this transaction. The accounting treatment depends on whether the non-monetary assets subject of the transaction constitute a “business”, as defined in IFRS 3 Business Combinations. In such case, the gain or loss is recognised in full.	The effective date of 1 January 2016 was withdrawn and deferred indefinitely (early adoption continues to be permitted) EU endorsement postponed
Annual Improvements to IFRS 2014–2016 Cycle	Annual Improvements amend three standards predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.	1 January 2017 (amendment to IFRS 12) 1 January 2018 (amendments to IFRS 1 and IAS 28)
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	The amendments relate to three areas: the accounting for the effects of vesting conditions on cash-settled share-based payment transactions, the classification of share-based payment transactions with net settlement features for withholding tax obligations, and the accounting for modification of a share-based payment transaction that changes the classification from cash-settled to equity-settled.	1 January 2018
IFRS 15 Revenue from Contracts with Customers – new standard, issued in May 2014 Clarifications to IFRS 15, issued in April 2016	<p>The new standard supersedes current revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.</p> <p>It outlines a single comprehensive model for accounting and disclosure of revenue arising from contracts with customers to provide goods or services, regardless of the industry or the type of transaction. For the banking sector, the following areas in particular may be affected: credit card loyalty schemes, pricing mechanisms including variable amounts, distinct goods or services in multi-element arrangements, up-front fees at or near contract inception.</p> <p>The Bank has assessed the effects of applying the new standard on the financial statements and has identified in particular the following areas that will be affected: performance fees in the light of constraints on variable consideration and insurance as a supplementary service in the light of the new and detailed guidance for principal versus agent considerations. The methods compliant with IFRS 15 will be adopted starting from 1 January 2018. However, as the Bank’s main business lies outside the scope of IFRS 15, the expectation is that these changes will have insignificant impacts.</p>	1 January 2018
IFRS 16 Leases – new standard	<p>The new standard, superseding IAS 17 Leases and related interpretation, establishes principles for the recognition, measurement, presentation and disclosure of leases for both: the lessee and the lessor.</p> <p>From the lessee’s point of view, the standard newly provides a single on-balance sheet accounting model. Lessees are required to recognise assets (right-of-use assets) and liabilities (lease liabilities) for all leases unless the lease term is 12 months or less or the underlying asset is of low value, in which case the lessees have an accounting policy choice to apply a method similar to operating leases under IAS 17. A right-of-use asset is treated similarly as are other non-financial assets; it is depreciated in accordance with the requirements in IAS 16 Property, Plant and Equipment and tested for impairment under IAS 36 Impairment of Assets. A lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use its incremental borrowing rate.</p> <p>Lessors continue to classify leases as operating or finance, with an accounting approach substantially unchanged from IAS 17. For a finance lease, the net investment in the lease (lease receivable) is subject to the derecognition and impairment requirements in IFRS 9 Financial Instruments.</p>	1 January 2019

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 9 Financial Instruments – new standard	<p>IFRS 9 supersedes the current IAS 39 Financial Instruments: Recognition and Measurement and introduces a new approach to the classification and measurement of financial assets, a new impairment methodology and new hedge accounting rules for micro hedges.</p> <p>The classification and measurement of financial assets depends on assessment of both: (i) a financial asset's contractual cash flow characteristics and (ii) the entity's business model for managing the financial asset. The resulting measurement categories are:</p> <ul style="list-style-type: none"> <li>• Amortised cost;</li> <li>• Fair value through other comprehensive income; and</li> <li>• Fair value through profit or loss.</li> </ul> <p>In comparison to IAS 39, the embedded derivatives in financial assets are no longer bifurcated.</p> <p>In respect to financial liabilities, IFRS 9 retains almost all of the existing requirements from IAS 39 except changes in the entity's own credit risk for financial liabilities designated at fair value through profit or loss using the fair value option, which are newly presented in other comprehensive income.</p> <p>The impairment requirements in the new standard are based on an expected credit loss model and will be applied to both financial assets and off-balance sheet credit risk bearing exposures (loan commitments and financial guarantee contracts) not accounted for at fair value through profit or loss and excluding also equity instruments. Entities are required to recognise from initial recognition throughout the life of an asset a loss allowance to the extent of 12-month expected credit losses or lifetime expected credit losses depending on whether there has been a significant increase in credit risk after initial recognition. The measurement of expected credit losses should reflect a probability-weighted outcome, the time value of money and reasonable and supportable information. Furthermore IFRS 9 provides guidance on estimating expected credit losses for financial assets whose contractual conditions have been modified.</p> <p>The new hedge accounting requirements align hedge accounting more closely with risk management, which means that more of an entity's risk management activities may qualify for hedge accounting and more designations of groups of items as hedged items are possible. The new model does not fundamentally change the types of hedging relationships or the requirement to measure and recognise ineffectiveness under IAS 39. However, there is only a prospective effectiveness test remaining that is newly based on objective (focus on the economic relationship between the hedged item and the hedging instrument) and replaces the range of 80–125%.</p>	1 January 2018
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	<p>The amendments address the different effective dates of IFRS 9 Financial Instruments and the new standard for insurance contracts IFRS 17.</p> <p>The amendments introduce two options for entities that issue insurance contracts within the scope of IFRS 4:</p> <p>(a) Overlay approach permitting entities to reclassify from profit or loss to other comprehensive income an amount equal to the difference between the amount reported in profit or loss for designated financial assets applying IFRS 9 and the amount that would have been reported in profit or loss for those assets if the insurer had applied IAS 39; and</p> <p>(b) Temporary exemption from applying IFRS 9 for entities whose activities are predominantly connected with insurance.*</p> <p>The application of both approaches is optional and an entity is permitted at the beginning of any annual period to irrevocably stop applying them before the new insurance contracts standard is applied.</p> <p>The Group intends to use the temporary exemption and to postpone the application of IFRS 9 for its insurance associate.</p>	1 January 2018

Standard	Summarised content	Effective for reporting period beginning on or after
IFRIC 22 Foreign Currency Transactions and Advance Consideration	<p>Following IAS 21 The Effects of Changes in Foreign Exchange Rates, the interpretation addresses the accounting for foreign currency transactions or parts of transactions where:</p> <ul style="list-style-type: none"> <li>• there is consideration that is denominated or priced in a foreign currency;</li> <li>• the entity recognises a prepayment asset or a deferred income liability in respect of that consideration in advance of the recognition of the related asset, expense or income; and</li> <li>• the prepayment asset or deferred income liability is non-monetary.</li> </ul> <p>For the purposes of determining the exchange rate, IFRIC 22 specifies the date of the transaction as the date of initial recognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.</p>	1 January 2018 EU not yet endorsed
IFRIC 23 Uncertainty over Income Tax Treatments	The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under IAS 12, in particular: (i) whether uncertain tax treatments should be considered separately; (ii) assumptions for taxation authorities' examinations; (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates; and (iv) effect of changes in facts and circumstances.	1 January 2019 EU not yet endorsed
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	<p>The amendments supplement the existing requirements in IFRS 9 for financial assets regarding early termination rights in order to enable measurement at amortised cost or at fair value through other comprehensive income, subject to an assessment of the business model, even in the case of negative compensation.</p> <p>The amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in derecognition. The entity shall recognise any adjustment to the amortised cost of the financial liability in profit or loss at the date of the modification or exchange.</p>	1 January 2019 EU not yet endorsed
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	The amendments clarify that the entity applies IFRS 9 (including impairment requirements) to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture to which the equity method is not applied.	1 January 2019 EU not yet endorsed
Annual Improvements to IFRS 2015–2017 Cycle	Annual Improvements amend four standards in three subject areas, predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.	1 January 2019 EU not yet endorsed
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. The companies are newly required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.	1 January 2019 EU not yet endorsed
IFRS 17 Insurance Contracts – new standard	<p>IFRS 17 replaces the current standard for insurance contracts, IFRS 4, and provides uniform recognition, measurement, presentation and disclosure principles for all issued insurance contracts (including reinsurance contracts). It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued, provided the entity also issues insurance contracts.</p> <p>To make differences in profitability among insurance contracts visible, IFRS 17 requires entities to divide each portfolio of insurance contracts into a minimum of three groups: (i) loss-making (onerous) contracts at initial recognition, (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently and (iii) remaining contracts.</p> <p>The groups of insurance contracts will be measured at current values, using updated estimates and assumptions about cash flows, discount rates and risks relating to insurance contracts. Requirements in IFRS 17 align the recognition of revenue with other industries. Entities will recognise profit allocated to periods when the insurance services are provided rather than when the premiums are received. For a loss-making group of contracts, the loss will be recognised immediately.</p> <p>As for the presentation in the statement of income, insurance service result (comprising insurance revenue and insurance service expenses) will be presented separately from insurance finance income or expenses.</p>	1 January 2021 EU not yet endorsed

\* The European Commission endorsement includes a 'top up' allowing to defer IFRS 9 in the consolidated financial statements until 1 January 2021 (effective date of IFRS 17) also for insurance sector subsidiaries of financial conglomerates, subject to certain conditions.

### 3.4.3 Standards and interpretations not yet endorsed by the European Union

The European Commission decides on the applicability of IFRS issued by the IASB within the European Union by Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

As of the issuance date of these Consolidated Financial Statements, IFRS as adopted by the European Union does not differ from IFRS, except for provisions of IAS 39 prohibiting fair value hedge accounting applied to interest rate hedging on a portfolio basis for banking deposits, which has not been approved by the European Union (i.e. in the European Union this hedging is permitted). Should the full version of IAS 39 requirements be applied, the impact would be insignificant, as the Group does not use interest rate hedging on a portfolio basis for banking deposits.

Those effective or issued standards and interpretations and/or amendments thereto not approved by the European Commission are highlighted in the previous section herein.

## 3.5 Principal accounting policies

### 3.5.1 Transactions in foreign currencies

#### 3.5.1.1 Functional and presentation currency

The functional currency of the Group's entities operating in the Czech Republic (i.e. the currency of the primary economic environment in which the Group operates) is the Czech crown.

The Group has a branch and a subsidiary, PSA FINANCE SLOVAKIA, s.r.o., in the Slovak Republic and a subsidiary, Bastion European Investments S.A., in Belgium. These all have the euro as their functional currency and are considered as foreign operations from a financial reporting point of view.

#### 3.5.1.2 Transactions and balances translation

Transactions realised in foreign currency (i.e. in a currency other than the functional currency) are translated into the functional currency as of the date of initial recognition using the spot foreign exchange rate announced by the bank authority (hereafter only the "BA") for the respective foreign currency. Depending on the functional currency, the BA means the Czech National Bank (hereafter only the "CNB") for the Czech crown and the European Central Bank (hereafter only "ECB") for the euro.

At the end of the reporting period all balance sheet line items denominated in foreign currency are translated into the functional currency, depending on their nature, as follows:

- I. Foreign currency monetary items are translated using the closing rate (foreign exchange rate announced by the BA at the end of the reporting period);
- II. Non-monetary items that are measured at historical cost are translated using the BA's foreign exchange rate at the date of the transaction; and
- III. Non-monetary items that are measured at fair value in a foreign currency are translated using the BA's foreign exchange rate at the date when the fair value was determined.

Gains and losses related to the translation of foreign currency items at the end of the reporting period as well as those related to their settlement are recognised as gains or losses of the period in which they occur and are presented in the line '*Net profit/(loss) on financial operations*'.

Where a gain or loss from a fair value change in a non-monetary item denominated in foreign currency is recognised directly in Other Comprehensive Income, however, related foreign exchange rate differences are recognised in the same way. These non-monetary items include equity instruments. Also recognised in Other Comprehensive Income are foreign exchange rate differences related to the fair value revaluation of debt instruments classified as available-for-sale (excluding the effective portion of their fair value hedges and excluding foreign exchange rate differences related to changes in their amortised cost) and non-derivative financial liabilities (current accounts, deposits) used as hedging items for the cash flow hedge of foreign currency risk and the hedge of a net investment in a foreign operation.

For consolidation purposes, the results and financial position of entities whose functional currency is different from the Group's presentation currency are translated into this currency using the following procedures:

- I. Assets and liabilities are translated using the closing rate (exchange rate announced by the CNB at the end of the reporting period);
- II. Income and expenses presenting profit or loss are translated using the average rate for the period (monthly average of exchange rates announced by the CNB during the period);
- III. All resulting exchange differences are recognised in other comprehensive income and presented in the line '*Share premium and reserves*' being part of '*Capital funds and retained earnings*'.

### 3.5.2 Recognition of income and expenses

#### 3.5.2.1 Net interest income and similar income

Interest income and expense related to interest-bearing instruments, except for instruments classified as financial assets or financial liabilities at fair value through profit or loss and interest hedging derivatives, are recognised on an accrual basis in the Statement of Income in the lines '*Interest income and similar income*' and '*Interest expense and similar expense*' using the effective interest rate (refer to 3.5.5.7 Effective interest rate method). Interest income and expense related to interest rate hedging derivatives are recognised in the lines described on an accrual basis using the contractual interest rate of the corresponding derivative. Late fee income is recognised at the date of its payment and presented in the line '*Interest income and similar income*'.

Dividend income is recognised when the Group's right to receive a dividend payment is established and is presented in the line '*Dividend income*'.

#### 3.5.2.2 Net fee and commission income

The recognition of income from fees and commissions depends on the purpose for which a fee was assessed and the basis of accounting for any associated financial instrument. In accordance with the substance of fees and nature of services for which they are assessed, the Group distinguishes the following three categories of fees:

- Fees and commissions that comprise an integral component of the effective interest rate of a financial instrument are recognised in the line '*Interest income and similar income*';
- Fees and commissions for services provided – income from these is recognised as revenue when services are provided and it is presented in the line '*Net fee and commission income*';
- Fees and commissions for the execution of an act – income from these is recognised as revenue when the act has been completed and is also presented in the line '*Net fee and commission income*'.

#### 3.5.2.3 Net profit/(loss) on financial operations

This line includes net profit/loss on financial operations, which means realised and unrealised gains/losses on securities held for trading; security derivatives; currency, interest rate and trading commodity derivatives; foreign exchange transactions; foreign assets and liabilities retranslation to the functional currency; and realised gains/losses on available-for-sale financial assets.

In this line there is also recognised interest income and expense related to interest-bearing instruments classified as financial assets or financial liabilities at fair value through profit or loss.

### 3.5.3 Cash and cash equivalents

Cash comprises cash on hand and cash in transit.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes. This item also includes obligatory minimum reserves. The Group can freely transact with the amount of these reserves under the assumption that average obligatory minimum reserves are maintained within the given maintenance period established by the CNB.

In preparing its Statement of Cash Flows for the period, the Group includes into cash and cash equivalents the cash and current balances with central banks at the beginning and end of the period and current amounts due from and to banks.

### 3.5.4 Fair value and hierarchy of fair value

Fair value is the price that would be received in selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of asset or liability measured at fair value. The hierarchy of fair values has the following three levels:

- *Level 1*: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- *Level 2*: inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- *Level 3*: inputs are unobservable inputs for the asset or liability.



The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The fair value is included in the hierarchy according to the lowest classified significant input used in its determination. Significant input information is that information which has a significant impact on the total fair value of the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis (i.e. those for which measurement at fair value is required or permitted in the statement of financial position at the end of each reporting period), the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the date of the event or change in circumstances that caused the transfer.

### **3.5.5 Financial instruments**

#### **3.5.5.1 Dates of recognition and derecognition**

All regular way purchases or sales of financial assets are recognised using settlement date accounting. The settlement (collection) date is the day on which the financial instrument is delivered (cash payment).

When settlement date accounting is applied, the financial asset is recognised in the Statement of Financial Position on the day of receipt of a financial instrument (sending of cash) and derecognised on the day of its delivery (collection of cash).

For financial assets measured at fair value, however, an acquired financial asset is measured to reflect changes in its fair value from the purchase trade date to the purchase settlement date according to its categorisation into an individual portfolio (i.e. either in profit or loss or in other comprehensive income).

All purchases and sales of financial instruments that do not meet the “regular way” settlement criterion in the marketplace concerned are treated as financial derivatives. The Group recognises financial derivatives in the Statement of Financial Position at the trade date. Financial derivatives are derecognised at their maturity.

The Group recognises a financial liability in the Statement of Financial Position when it becomes a party to the contractual provisions of the instrument and it is removed from the Statement of Financial Position when it is extinguished (i.e. in circumstances where a contractually defined obligation is fulfilled, cancelled or expires).

#### **3.5.5.2 Initial measurement of financial assets and financial liabilities**

When a financial asset or financial liability is initially recognised, the Group measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of that instrument.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received).

The transaction costs include mainly fees and commissions paid to brokers, dealers and agents.

Also, financial guarantee contracts issued are initially recognised at fair value, being the premium received, in the Statement of Financial Position in the line ‘*Accruals and other liabilities*’. The guarantees are subsequently measured as of the financial statements date at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in profit or loss (in the Statement of Financial Position in the line ‘*Accruals and other liabilities*’), and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee (in the Statement of Financial Position in the line ‘*Provisions*’). The premium received is recognised in the Statement of Income in the line ‘*Net fee and commission income*’ on a straight-line basis over the life of the guarantee. The creation of provisions is recognised in the Statement of Income in the line ‘*Allowances for loan losses*’.

#### **3.5.5.3 “Day 1” profit or loss**

In determining whether fair value at initial recognition equals the transaction price, the Group takes into account factors specific to the transaction and to the asset or liability.

The Group trades no financial instruments on an inactive market. On active markets the Group trades financial instruments only for the quoted price in the active market. For this reason, there is no difference between the transaction price and the fair value of the financial asset or financial liability that is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique whose variables include only data from observable markets (a “Day 1” profit or loss).

### 3.5.5.4 Financial assets and liabilities classification and subsequent measurement

Financial assets and liabilities held by the Group are classified upon initial recognition into appropriate portfolios of financial instruments in accordance with the characteristics of a given instrument, the Group's intention as of the acquisition date, and pursuant to the Group's financial instrument investment strategy as follows:

- I. Financial assets and liabilities at fair value through profit or loss;
- II. Held-to-maturity investments;
- III. Loans and receivables;
- IV. Available-for-sale financial assets; or
- V. Financial liabilities at amortised cost.

The Group does not make use of an option to designate a financial asset or liability upon initial recognition as a financial instrument at fair value through profit or loss (the so-called "Fair Value Option").

#### (i) Financial assets and liabilities at fair value through profit or loss

The Group designates as financial assets at fair value through profit or loss securities held for trading and derivatives that are assets (i.e. financial instruments acquired by the Group for the purpose of generating a profit from short-term fluctuations in prices). These financial assets are recognised in the Statement of Financial Position in the line '*Financial assets at fair value through profit or loss*'.

Securities designated as held for trading include equity and debt securities, treasury bills, bills of exchange and participation certificates. The trading derivative financial instruments used by the Group include currency and commodity forwards, currency and interest rate swaps, derivatives on securities and emission allowances and options.

Financial liabilities at fair value through profit or loss include liabilities from securities sold and trading derivatives that are liabilities and are recognised in the Statement of Financial Position in the line '*Financial liabilities at fair value through profit or loss*'.

Unrealised gains and losses, as well as realised gains and losses arising from the fair value measurement of financial assets and liabilities, interest and dividends are recognised as income in the Statement of Income in the line '*Net profit/(loss) on financial operations*'. These financial assets are not tested for impairment because the change of fair value is recognised directly in profit or loss.

#### (ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity and which do not meet the definition of loans and receivables (i.e. are quoted on an active market).

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any impairment loss through the use of an allowance account. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are integral components of the effective interest rate. The amortisation is included in '*Interest income and similar income*' in the Statement of Income. When an impairment of assets is identified, the Group recognises allowances in the Statement of Income in the line '*Allowance for impairment of securities*'.

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than due to an isolated event that is beyond the Group's control, which is non-recurring and could not reasonably have been anticipated by the Group due to a significant decrease of a client's creditworthiness, changes in tax laws, major business combination or major disposition (including sale of a segment), changes in legislative requirements, a significant increase in regulatory capital requirements or significant increase in risk weights for held-to-maturity investments to calculate the capital adequacy), the entire portfolio would have to be reclassified as '*Available-for-sale financial assets*'. Furthermore, the Group would be prohibited from classifying any financial asset as '*Held-to-maturity investments*' for the following two years.

#### (iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

- Assets that the Group intends to sell immediately or in the near term, which are classified as held for trading, as well as those that the Group upon initial recognition designates as at fair value through profit or loss;
- Assets that the Group upon initial recognition designates as available-for-sale; or
- Assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration (e.g. asset-backed securities or a fixed rate interest-only strip created in a securitisation and subject to prepayment risk), which are classified as available-for-sale financial assets or as financial assets at fair value through profit or loss.

Loans and receivables are subsequently measured at amortised cost using the effective interest rate method less any impairment loss through the use of an allowance account. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are integral components of the effective interest rate. The amortisation is included in the line '*Interest income and similar income*' in the Statement of Income. When impairment of assets is identified, the Group recognises allowances in the Statement of Income in the line '*Allowance for loan losses*'.

Financial assets designated as loans and receivables are reported in the Statement of Financial Position in the line '*Amounts due from banks*' or in the line '*Loans and advances to customers*', as appropriate for the type of debtor.

**(iv) Available-for-sale financial assets**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity investments. This portfolio comprises equity securities and debt securities, asset-backed securities and participation certificates.

Available-for-sale financial assets are subsequently measured at fair value and at the end of each reporting period tested to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. Unrealised gains or losses from the fair value measurement of these assets are recognised within Other Comprehensive Income in the line '*Net value gain/(loss) on available-for-sale financial assets, net of tax*' until their sale, maturity or impairment as well as fair value changes arising from changes in foreign exchange rates. Gains or losses from changes in foreign exchange rates on debt instruments are recognised in the Statement of Income in the line '*Net profit/(loss) on financial operations*', except that exchange rate gains or losses related to fair value revaluation are recognised within Other Comprehensive Income. When the available-for-sale financial asset is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Income in the line '*Net profit/(loss) on financial operations*'.

Accrued interest income for debt securities is recognised in the Statement of Income line '*Interest income and similar income*'. Dividend income arising from equity securities is recognised when the right for dividends is established and reported in the Statement of Income in the line '*Dividend income*'.

**(v) Financial liabilities at amortised cost**

Financial liabilities at amortised cost include non-derivative financial liabilities with fixed or determinable payments and are recognised according to the type of counterparty in the lines '*Amounts due to central banks*', '*Amounts due to banks*', '*Amounts due to customers*', '*Securities issued*' and '*Subordinated debt*'.

Financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Income in the line '*Interest expense and similar expense*'.

In the event of the repurchase of its own debt securities, the Group derecognises these securities (i.e. the item '*Securities issued*' is decreased). Gains and losses arising as a result of repurchasing the Group's own debt securities are recognised as of the date of their repurchase in the Statement of Income in the line '*Net interest income*' as an adjustment to the interest paid from its own bonds.

**3.5.5.5 Reclassification of financial assets**

The Group does not reclassify any financial assets after initial recognition into the '*Financial assets at fair value through profit or loss portfolio*'. In rare circumstances, if non-derivative financial assets at fair value through profit or loss are no longer held for the purpose of selling or repurchasing in the short term, the financial assets may be reclassified out of the portfolio and be classified into the '*Available-for-sale financial assets*', or '*Held-to-maturity investments*' portfolio.

The Group may also reclassify a non-derivative trading asset out of the '*Financial assets at fair value through profit or loss*' portfolio and into the '*Loans and receivables*' portfolio if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. In certain rare circumstances, the Group may also reclassify financial assets out of the '*Available-for-sale financial assets*' portfolio and into the '*Loans and receivables*' portfolio if they meet the definition of loans and receivables and the Group has the intention and ability to hold the financial assets for the foreseeable future or until maturity. Fixed income securities quoted on an active market can be reclassified out of the '*Available-for-sale financial assets*' portfolio and into the '*Held-to-maturity investments*' portfolio if the Group's intention or ability to hold these securities has changed or upon expiry of the deadline during which securities were not permitted to be classified as securities held-to-maturity. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

The Group may reclassify financial assets or a significant amount out of the '*Held-to-maturity investments*' portfolio into the '*Available-for-sale financial assets*' portfolio or '*Loans and receivables*' portfolio, doing so without triggering the so called "tainting rules", in cases when the given assets are near to maturity, the Group has received almost the entire original principal of the given financial asset or there has occurred a unique and exceptional event that is outside of the Group's control and the Group could not have expected it. Such unique cases include in particular a significant decrease of a client's creditworthiness, changes in tax laws or in legal requirements, a business combination or the sale of a part of the business (segment), a significant increase in regulatory capital requirements or a significant increase in risk weights for held-to-maturity investments used in calculating the capital adequacy.

For a financial asset reclassified out of the '*Available-for-sale financial assets*' portfolio, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flow is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to profit or loss. Reclassification is at the election of management and is determined on an instrument-by-instrument basis.

### 3.5.5.6 Determination of a financial instrument's fair value and its hierarchy

For the determination and categorisation of a financial instrument's fair value, the Group treats a security as quoted if quoted market prices are readily and regularly available from a stock exchange, dealers, securities traders, industrial groups, valuation services or regulatory authorities and if these prices represent current and regular market transactions under ordinary conditions.

If there are no quoted prices in an active market for the financial asset, the Group uses other values that are observable, directly or indirectly, from the markets for its measurement, such as:

- I. Quoted prices for similar assets or liabilities in active markets;
- II. Quoted prices for identical or similar assets or liabilities in markets that are not active (i.e. there are few recent transactions, prices quotations are not based on current information, etc.);
- III. Inputs other than quoted prices (e.g. inputs based on interest rates, yield curves, implied volatilities, credit spreads, etc.); or
- IV. Inputs derived principally from, or corroborated by, observable market data.

Where the inputs for the determination of a financial instrument's fair value are not observable in a market due to the fact that there is no or only minimal activity for that asset or liability, the Group uses for fair value measurement inputs that are available but not directly observable within a market and which in the Group's view reflect assumptions that market participants take into account when pricing the financial instrument.

The fair value of debt securities for which an observable market price is not available is estimated using an income approach (the present value technique taking into account the future cash flows that a market participant would expect to receive from holding the instrument as an asset) and the fair value of unquoted equity instruments is estimated using an income approach or market approach (using prices and other relevant information generated by a market). The fair values of financial derivatives are obtained from quoted market prices, discounted cash flow models or option pricing models and they are adjusted for the credit risk of the counterparty or the Group's own credit risk, as appropriate.

The existence of published price quotations in an active market is normally the best evidence of fair value. The appropriate quoted market price for an asset held or liability to be issued is usually the current bid price and for an asset to be acquired or liability held, the asking price.

The Group manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk. It uses mid-market prices as the basis for establishing fair values for the offsetting risk positions and applies the bid or asking price to the net open position as appropriate.

When measuring the fair value of a financial asset or group of financial assets, the Group incorporates into the valuation an adjustment for the risk of default of the counterparty, a so called credit valuation adjustment (CVA).

### 3.5.5.7 Effective interest rate method

The effective interest rate is the rate which exactly discounts the estimated future cash payments or receipts through the expected life of a financial instrument.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument and includes any fees and incremental costs that are directly attributable to the instrument and constitute an integral component of the effective interest rate, but it does not take into consideration future credit losses.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period.

### 3.5.5.8 Forborne loans

Forborne exposures are debt contracts in respect of which forbearance measures have been granted to the debtor and for which the discontinuation conditions are not met. Forbearance measures consist of concessions to a debtor facing or about to face difficulties in meeting its financial commitments. The concession refers to either modification of terms and conditions (e.g. changes in payment schedule, interest rate reductions, penalty interest waivers) or refinancing. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms. Renegotiated loans are continuously reviewed by the Group to ensure that all criteria are met and that future payments are likely to occur. The renegotiated loans continue to be subject to impairment assessment, calculated based on their future cash flows discounted by the loans' original effective interest rates.

### 3.5.5.9 Impairment of financial assets

At the end of each reporting period, the Group assesses on a regular basis whether there is any objective evidence that a financial asset or group of financial assets is impaired, the only exception being securities at fair value through profit or loss.

Objective evidence that a financial asset or group of assets is impaired includes observable evidence that comes to the attention of the Group and proving the significant deterioration of a debtor's (issuer's) financial health, breach of contract (default in interest or principal

payment), high probability of bankruptcy or other financial reorganisation, or proving a measurable decrease in the estimated future cash flow due to adverse changes in industry conditions.

In addition to the aforementioned events, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, economic or legal environment in which the issuer operates and significant or prolonged decline in the fair value of the instrument below its cost. The determination of what constitutes a significant or prolonged decline is a matter of circumstances that requires application of the Group management's judgement. As indicators of possible significant or prolonged decline, the Group regards unrealised loss in respect of instrument acquisition cost or the fact that the quoted price of the instrument has been below its carrying amount during every trading date for several months. Furthermore, the Group considers the business model and strategy related to the instrument and supportive indicators as the financial situation of the issuer and its development perspective or regulatory requirements.

If there is objective evidence that an impairment loss on a financial instrument has been incurred, the Group calculates an impairment loss and recognises it in the respective item in the Statement of Income.

For a financial asset classified in portfolios carried at amortised cost (i.e. '*Held-to-maturity investments*' and '*Loans and receivables*' portfolios), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flow discounted at the financial asset's original effective interest rate. Estimations of future cash flows for loans are based on expected cash flows from the economic activities of the client and the possible realisation of loan collateral.

The Group uses one of three methods to assess the amount of allowances (refer to Note 43(A)). For larger, individually significant loans classified as default (Substandard, Doubtful and Loss loans based on the Czech National Bank's classification), the allowances are assessed on an individual basis requiring management to monitor the borrower's repayment abilities individually, including the estimated value from the collateral foreclosure and expected duration of the recovery process, etc. These allowances are calculated using discounted expected future cash flows.

For smaller, individually not significant impaired loans where the loans are homogeneous in nature (for example the consumer and mortgage loans to individuals and smaller corporate portfolios), the allowances are calculated by models using historical delinquency statistics.

Portfolio allowances are calculated for losses that have been incurred but have not been identified. Portfolio allowances are held against non-impaired loans across all segments and calculated using models based on probabilities of default and loss given default until the impairment event occurs and individual or model allowances for impaired loans are recognised.

Historical loss experience is adjusted on the basis of currently observable data to reflect new loss observations and to have better discrimination ability (i.e. to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently). The methodology and assumptions used for estimating the future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying amount of an asset is reduced through the use of an allowance account, the creation of which is recognised in the Statement of Income in the line '*Allowance for loan losses*' or '*Allowance for impairment of securities*'. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is correspondingly reversed.

When it can be reasonably anticipated that clients will be unable to fulfil their obligations to the Group in respect of such loans, loss loans are written off and recognised in the Statement of Income in the line '*Allowance for loan losses*'. Subsequent recoveries are credited to the Statement of Income in '*Allowance for loan losses*' if previously written off. If the Group collects an amount greater than that written off subsequent to the write-off of the loan, the difference is reported through '*Interest income and similar income*'.

For '*Available-for-sale financial assets*' and in the case of objective evidence of their impairment, a cumulative loss that had been recognised in Other Comprehensive Income is reclassified to the Statement of Income and recognised in the line '*Allowance for impairment of securities*' for debt instruments and in the line '*Net profit/(loss) on financial operations*' for equity instruments. The amount of the loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in the Statement of Income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Statement of Income, the impairment loss is reversed, with the amount of the reversal recognised in the Statement of Income. The Group cannot reverse any impairment loss recognised in the Statement of Income for an equity instrument.

#### **3.5.5.10 Repurchase agreements**

The Group accounts for contracts to sell and buy back financial instruments (so-called "repos" or "reverse repos") based on their substance as the receiving or granting of a loan with a corresponding transfer of financial instruments as collateral.

Under repurchase transactions ("repos"), the Group only provides securities held in the portfolio of '*Financial assets or financial liabilities at fair value through profit or loss*' or in the '*Available-for-sale financial assets*' portfolio that are recorded in the Statement of Financial



Position in the same lines. The corresponding liability arising from a loan received is recognised in the line '*Amounts due to banks*' or '*Amounts due to customers*', as appropriate.

Securities purchased under reverse repurchase agreements ("reverse repos") are recorded in the off-balance sheet, where they are remeasured at fair value. The corresponding receivable arising from the provided loan is recognised as an asset in the Statement of Financial Position according to the counterparty type in the line '*Amounts due from banks*' or '*Loans and advances to customers*'.

The Group is allowed to provide securities received in reverse repo transactions as collateral or sell them even in the absence of default by their owner. These securities continue to be recorded in the off-balance sheet and measured at fair value. The corresponding liability arising from the loan received is included in '*Amounts due to banks*' or '*Amounts due to customers*', as appropriate. The Group has the obligation to return these securities to its counterparties.

The differences between the sale and repurchase prices in respect of repo and reverse repo transactions are treated by the Group as interest, and it is accrued evenly to expenses and income over the life of the repo agreement using the effective interest rate method.

In regard to the sale of a security acquired as collateral under a reverse repo transaction, the Group derecognises from the off-balance sheet evidence the security acquired under the reverse repo transaction and recognises in the Statement of Financial Position an amount payable from a short sale that is remeasured at its fair value. This payable is included in '*Financial liabilities at fair value through profit or loss*'.

### 3.5.5.11 Derivatives and hedge accounting

A derivative is a financial instrument or other contract having all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other market variable;
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- It is settled at a future date.

At the inception of a financial derivative contract, the Group designates the derivative instrument as either held for trading or hedging.

Held for trading derivatives are classified into a portfolio of '*Financial assets or financial liabilities at fair value through profit or loss*' based on whether the fair value is positive or negative (refer to 3.5.5.4 Financial assets and liabilities classification and subsequent measurement).

Hedging derivatives are derivatives that the Group uses to hedge against interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. The Group designates a derivative as hedging only if the criteria set out under IFRS are met at the designation date, i.e. if, and only if, all of the following conditions are met:

- There is compliance with the Group's risk management objective and strategy in undertaking the hedge;
- At inception of the hedge there is formal designation and documentation of the hedging relationship which includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
- The hedge is expected to be highly effective at inception and throughout the period;
- The effectiveness of the hedge can be reliably measured; and
- Changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

Hedging derivatives are accounted for according to the type of hedging relationship, which can be one of the following:

- I. Hedging of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and that could affect profit or loss (fair value hedge); or
- II. Hedging of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss (cash flow hedge); or
- III. Hedging of a net investment in a foreign operation.

Changes in the fair value of a derivative that is designated and qualified as a fair value hedge are recognised in the Statement of Income line '*Net profit/(loss) on financial operations*'. Changes in the fair value of a hedged item are recognised in the Statement of Financial Position as a component of the carrying amount of the hedged item and in the Statement of Income line '*Net profit/(loss) on financial operations*'.

It is on this basis that the Group hedges the interest rate risk and foreign currency risk of financial assets (loans with fixed interest rates and debt instruments classified as available-for-sale) and interest rate risk of deposits, repos, mortgage bonds issued, as well as

selected portfolios of building savings. The effectiveness of a hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation and an adjustment to the carrying amount of the hedged interest-bearing financial instrument is amortised to profit or loss over the period until the maturity of the hedged item.

In connection with the reclassification of certain debt securities from the *'Available-for-sale financial assets'* portfolio and into the *'Held-to-maturity investments'* portfolio, the Group revoked the designation of respective interest rate swaps as fair value hedges and prospectively classifies them as a cash flow hedge of interest rate risk associated with selected portfolios of assets or liabilities.

The Group accounts also for portfolio fair value hedges (hedging transactions concerning portfolios of financial assets or liabilities), for which interest rate swaps are used. When accounting for these transactions, the Group applies the IAS 39 "carve-out", as adopted by the European Union. The accounting treatment of financial derivatives designated as portfolio fair value hedges is similar to that of other fair value hedging derivatives.

Changes in the fair value of hedging derivatives classified as cash flow hedges and that prove to be highly effective in relation to the hedged risks are recognised in the line *'Cash flow hedging'* in Other Comprehensive Income and they are transferred to the Statement of Income and classified as income or expense in the periods during which the hedged items affect the Statement of Income. The ineffective portion of a hedge is charged directly to the Statement of Income in the line *'Net profit/(loss) on financial operations'*.

It is on this basis that the Group hedges the interest rate risk and currency risk associated with selected portfolios of assets or liabilities or individually significant assets or liabilities. The effectiveness of a hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation and the cumulative gain or loss on the hedging instrument that has been recognised in Other Comprehensive Income for the period when the hedge was effective remains in equity until the forecast transaction occurs.

If the forecast transaction is no longer expected to occur, the gain or loss accumulated as other comprehensive income is reclassified to profit or loss.

The Group additionally hedges against the foreign exchange rate risk arising from the net investment in the subsidiaries Bastion European Investments S.A. and PSA FINANCE SLOVAKIA, s.r.o. Foreign currency deposits are used as a hedging instrument. Foreign exchange rate differences arising from its retranslation are included in Other Comprehensive Income.

Financial derivatives constituting economic hedges under the Group's risk management positions but not qualifying for hedge accounting under the specific rules of IAS 39 are treated as derivatives held for trading.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 43(C).

#### **3.5.5.12 Embedded derivatives**

In some cases, a derivative, such as an option for an earlier redemption of a bond, is a component of a hybrid (combined) financial instrument that also includes a non-derivative host contract. The embedded derivative is separated and accounted for as a derivative if, and only if, all of the following conditions are met:

- The embedded derivative as a separate instrument meets the definition of a derivative;
- The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract; and
- The host contract is not measured at fair value with fair value changes recognised in the Statement of Income.

#### **3.5.6 Assets held for sale**

The line *'Assets held for sale'* represents assets for which the Group expects that their carrying amounts will be recovered principally through sale transactions rather than through continuing use. These assets are available for immediate sale in their present condition, they are actively marketed for sale at a price that is reasonable in relation to their current fair value, and their sale is highly probable, that is to say that a plan to sell and leading to the location of a buyer has been initiated. The Group expects that the sale of assets will be completed, the market situation permitting, within one year from the date of the asset's classification as *'Assets held for sale'*.

Assets held for sale are measured at the lower of:

- The carrying amount of the respective asset at the date of its classification as *'Assets held for sale'*; or
- Fair value less estimated costs to sell (e.g. cost of expert valuation reports, legal or financial advisory services, the estimates of which are based on historical experience, as well as real estate transfer tax for real estate).

Assets designated as *'Assets held for sale'* are no longer depreciated.

The Group recognises an impairment loss on assets held for sale in the line '*Net profits on other assets*' if their selling price less estimated costs to sell is lower than their carrying value. Any subsequent increase in the selling price less costs to sell is recognised as a gain but not in excess of the cumulative impairment loss that has been recognised either during the time when the assets were classified as held for sale or before their reclassification into the line '*Assets held for sale*' (i.e. during the period when the asset had been held for supplying the Group's services or for administrative purposes).

### 3.5.7 Income tax

#### 3.5.7.1 Current income tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those valid as of the Statement of Financial Position date.

Current income tax is recognised in the Statement of Income, or, as the case may be, in the Statement of Other Comprehensive Income if it relates to an item directly taken into other comprehensive income.

The Group does not set off current tax assets and current tax liabilities unless it has a legally enforceable right to set off the recognised amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

#### 3.5.7.2 Deferred income tax

Using the balance sheet liability method, deferred income tax is recorded for temporary differences arising between the tax bases of assets and liabilities and their carrying values presented in the Statement of Financial Position. Deferred income tax is determined using tax rates valid or substantially enacted for the periods in which the Group expects to realise the deferred tax asset or to settle the deferred tax liability. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the tax asset can be used.

Deferred income tax is recognised in the Statement of Income, or, as the case may be, in the Statement of Other Comprehensive Income if it relates to an item directly taken into other comprehensive income (such as deferred income tax related to changes in the fair value of available-for-sale financial assets or in relation to a cash flow hedge).

The Group offsets deferred income tax assets and deferred income tax liabilities only if it has a legally enforceable right to set off current tax assets against current tax liabilities and deferred tax assets and deferred tax liabilities relate to income tax levied by the same taxation authority and relate to the same taxable entity.

The largest temporary differences relate to tangible and intangible assets, loans and receivables, hedging derivatives, and available-for-sale financial assets.

### 3.5.8 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### The Group as lessor

##### **Operating leases**

The Group presents assets that are the subject of an operating lease in the appropriate lines within the Statement of Financial Position according to the nature of those assets and uses for them accounting policies applied to the relevant asset class.

Leasing payments received from operating leases are recognised as the Group's income on a straight-line basis over the term of the relevant lease and this income is presented in the line '*Other income*'.

##### **Finance leases**

When assets held are subject to a finance lease, the net investment in the lease is recognised as '*Loans and advances to customers*' while the assets themselves are not recognised. The difference between the gross receivable and the present value of the receivable is recognised as deferred interest income.

Lease income is recognised over the term of the lease, reflecting a constant periodic rate of interest on the remaining balance of the receivable, and it is presented in the line '*Interest income and similar income*'.

#### The Group as lessee

##### **Operating leases**

Lease payments under an operating lease are recognised on a straight-line basis over the lease term and are presented in the line '*General and administrative expenses*'. Possible penalty payments due to the early termination of a lease are recognised in the reporting period in which the lease was terminated.

### Finance leases

At the commencement of a lease term, an asset held under a finance lease is recognised in the appropriate line within the Statement of Financial Position in accordance with the nature of the asset and simultaneously a liability is recognised in an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Subsequently, the Group uses the same accounting policies for these assets as for its own property presented in the same line as the leased asset. If the legal ownership of the asset held under finance lease is not transferred to the lessee by the end of the lease term, however, the asset is depreciated on a straight-line basis over the lease term.

The Group divides lease payments between amortisation recognised as the reduction of the outstanding liability and a finance charge recognised in the Statement of Income as *'Interest expense and similar expense'*. The finance charge is allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability during the entire lease period.

### 3.5.9 Tangible and intangible assets (except goodwill)

Intangible assets include principally software and internally generated intangible assets (mainly software). Tangible assets include plant, property and equipment that are used by the Group in supplying its services and for administrative purposes and that are used for longer than one reporting period.

Tangible and intangible assets are measured at the historical acquisition cost less accumulated impairment losses (allowances) and, in the case of depreciated assets, less accumulated depreciation and increased by technical improvements. The historical acquisition cost comprises the purchase price and any costs directly attributable to asset acquisition such as delivery and handling costs, installation and assembly costs, advisory fees, and administrative charges. The acquisition cost of internally generated intangible assets comprises external expenses and internal personnel expenses related to an internal project's development phase. The Group capitalises no expenses related to the research phase.

Tangible and intangible assets are depreciated from their acquisition costs on a straight-line basis over their useful lives. Cars under finance leases are depreciated from acquisition cost less estimated residual value, which is determined on the basis of the purchase price following expiration of the lease as established in the lease contract. The Group assumes no residual value for other assets. Depreciation and amortisation are reported in the Statement of Income on the line *'Depreciation, amortisation and impairment of operating assets'*.

The Group does not depreciate land and works of art, Tangible and intangible assets in the course of construction and technical improvements are depreciated only once they have been brought into a condition fit for use.

*During the reporting period, the Group used the following useful lives in years:*

	2017	2016
Machinery and equipment	4	4
Information technology – notebooks, servers	4	4
Information technology – desktop computers	6	6
Fixtures, fittings and equipment	6	6
Vehicles	5	5
ATMs	10	10
Selected equipment of the Group	8	8
Energy machinery and equipment	12/15	12/15
Distribution equipment	20	20
Buildings and structures	40	40
Buildings and structures – selected components:		
– Heating, air-conditioning, windows, doors	20	20
– Lifts, electrical installations	25	25
– Facades	30	30
– Roofs	20	20
– Other components	15	N/A
– Residual value of buildings and technical improvements without selected components	50	50
Technical improvements on leasehold assets	According to the lease term	According to the lease term
Intangible results of development activities (assets generated internally as component of internal projects)	According to the useful life, typically 5	According to the useful life, typically 5
Licences – software	5	5
Other rights of use	According to contract	According to contract

At the end of each reporting period, the Group assesses whether there exists any indication that a tangible or intangible asset can be impaired. Indicators of possible impairment include information about a significant decline in an asset's market value, significant changes within the technological, market, economic or legal environment, obsolescence or physical damage to an asset, or change in the manner in which the asset is used. Where any such indicator exists, the Group estimates the recoverable amount of the asset concerned (i.e. the higher amount of its fair value less costs to sell in comparison with the asset's carrying value). If the asset's carrying amount is greater than its recoverable amount, the Group reduces its carrying amount to its recoverable amount and presents the recognised impairment loss in the line '*Depreciation, amortisation and impairment of operating assets*'.

Repairs and maintenance are charged directly to the Statement of Income when they occur.

### 3.5.10 Goodwill

Recognised goodwill arises on the acquisition of a subsidiary. For subsidiaries acquired until 2010, it represents the excess of the acquisition cost (including acquisition-related costs) for the interest acquired by the Group over the net fair value of the acquired assets, liabilities and contingent liabilities at the acquisition date. For subsidiaries acquired from 2010, it represents the difference between the fair value of the transferred consideration and the amount of any non-controlling interest measured at the present proportionate share in the recognised amounts of the subsidiary's identifiable net assets at fair value on one side and the net of the identifiable assets and the liabilities assumed both at fair value on the other side. Acquisition-related costs are recognised in profit or loss.

Goodwill is initially recognised at the cost of acquisition and subsequently at cost net of possible impairment losses. Once recognised, impairment losses on goodwill are not reversed.

The Group tests goodwill for impairment on an annual basis as of 30 September or more frequently if there is indication that the goodwill may be impaired. If the recoverable amount of the tested cash-generating unit (typically the acquired enterprise taken as a whole) is lower than its carrying value, the Group recognises an impairment of the cash-generating unit which is primarily allocated against the goodwill and subsequently against the value of other assets (against other impaired assets and/or on a pro-rata basis).

For the purpose of calculating the recoverable amount, the Group calculates value in use as the present value of the future cash flow to be generated by a cash-generating unit from its continuing use in the business. The Group estimates future cash flow on the basis of a 3-year financial plan for the cash-generating unit that is approved by management. Cash flows represent income after tax of cash-generating units available for distribution to owners. The discount rate used is the cost of capital calculated using the capital asset pricing model. This method is based on a risk-free interest rate grossed up by a risk premium determined according to the underlying activities of the cash-generating unit. Inasmuch as all respective subsidiaries are located in the Czech Republic and their functional currency is the Czech crown, no other premium is added. For the period beyond the 3-year financial plan, the projected cash flows are calculated in perpetuity based on constant cash flows being the net operating income after taxes and including a steady growth rate derived as an average from the 3-year financial plan. Key assumptions used in the preparation of the financial plan are consistent with market estimations (GDP, interest rate, inflation) and with past experience.

Upon the sale of a subsidiary, the appropriate goodwill balance is reflected in the profit or loss on the sale.

Most acquisitions give rise to positive goodwill. However, occasionally the net of the identifiable assets acquired and the liabilities assumed both at fair value may exceed the aggregate of the fair value of the transferred consideration and the amount of any non-controlling interest measured at the present proportionate share in the recognised amounts of the subsidiary identifiable net assets at fair value. The amount is then referred to as gain on bargain purchase (negative goodwill) and the resulting gain is recognised in profit or loss at the acquisition date. Prior to recognising the gain, however, the Group reassess whether it has correctly identified all of the assets acquired and liabilities assumed and reviews the procedures used for their measurement and the measurement of non-controlling interest in the acquiree and the consideration transferred.

### 3.5.11 Provisions

Provisions are recognised when and only when:

- The Group has a present obligation (legal or constructive) as a result of a past event;
- It is probable that settlement of the obligation will cause an outflow of resources causing a decrease of economic benefits; and
- A reliable estimate can be made of the amount of the obligation. Provisions for legal disputes are estimated on the basis of the amount sought by the plaintiff, including accrued interest and fees.

Provisions are measured as the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. The discount rate is a pre-tax rate reflecting current market assessments and the risks specific to the liability. Provision increases related to the passage of time are recognised as interest expense.

Among others, the Group recognises provisions for credit-related commitments which do not meet the criteria for recognition in the Statement of Financial Position. These provisions cover estimated losses from credit-related commitments into which the Group enters in the normal course of its business and that are recorded in the off-balance sheet. These commitments include primarily guarantees,



avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments, and approved overdraft loans. Provisions for credit-related commitments are created on the same basis as are allowances for loan portfolios (refer to Note 33).

### 3.5.12 Employee benefits

#### 3.5.12.1 General

The Group provides its employees with retirement benefits and disability benefits. The employees are entitled to receive retirement or disability benefits if they are employed by the Group until their retirement age or if they are entitled to receive a disability pension but only if they were employed within the Group for a minimum defined period.

Estimated benefit costs are recognised on an accruals basis through a provision over the employment term using an accounting methodology that is similar to the methodology used in respect of defined benefit pension plans. In determining the parameters of the model, the Group refers to the most recent employee data (the length of employment with the Group, age, gender, average salary) and estimates made on the basis of monitored historical data about the Group's employees (expected reduction of the current staffing levels) and other estimates (the amounts of bonuses, anticipated increase in salaries, estimated amounts of social security and health insurance contributions, discount rate).

These provisions are presented in the line '*Provisions*'. The changes in provisions are disaggregated into three components that are presented as follows:

- I. Service cost (i.e. additional liability that arises from employees providing service during the period) is presented in the line '*Personnel expenses*';
- II. The interest expense on the net benefit liability is presented in the line '*Personnel expenses*'; and
- III. Other changes in the value of the defined benefit obligation, such as changes in estimates, are presented within Other Comprehensive Income in the line '*Remeasurement of retirement benefits plan, net of tax*'.

The use of a provision is presented in the line '*Personnel expenses*'.

The Group additionally provides short-term benefits to its employees, such as contributions to retirement pension insurance and capital life insurance schemes. The Group recognises the costs of these contributions as incurred in the line '*Personnel expenses*' (refer to Note 9).

The Group has the following share plans and deferred compensation schemes:

#### 3.5.12.2 Deferred bonus payments

In accordance with European regulation (Capital Requirements Directive III; No. 2010/76/EU) the Group implemented a new compensation scheme for employees whose professional activities have a material impact on the Group's risk profile. For employees identified in accordance with the CRD III regulation, the performance-linked remuneration is split into two components: (i) a non-deferred component that is paid in the following year, and (ii) a deferred component that is spread over three years. The amounts of the two components are further split between bonuses paid in cash and bonuses paid in cash equivalent of the Société Générale S.A. share price or in cash equivalent of the Komerční banka, a.s. share price (indexed bonuses). Both bonuses are subject to presence and performance conditions:

- In the case of bonuses paid in the cash equivalent of the Société Générale S.A. share price, the performance condition is based on the profitability of the Société Générale Group;
- In the case of bonuses paid in cash and bonuses paid in cash equivalent of the Komerční banka, a.s. share price, the performance condition is based on the profitability of the Komerční banka Group. Moreover, for investment banking employees there is the condition that the Group's net investment banking operating income be higher than zero.

Indexed bonuses qualify as cash-settled share-based transactions. The liability is measured at the end of each reporting period until settled at the fair value of the shares of Société Générale S.A. or Komerční banka, a.s. multiplied by numbers of shares granted and it is spread over the vesting period.

The amount of bonuses finally vested is calculated as the number of Société Générale S.A. shares or Komerční banka, a.s. shares multiplied by their price fixed as the volume-weighted average of the last 20 closing trading prices prior to the first business day following the end of the applicable retention period.

Deferred cash bonuses (i.e. bonuses paid to employees more than 12 months after the end of the reporting period in which the employees render the related services) are considered as long-term employee benefits and the related expense is recognised over the vesting period in the line '*Personnel expenses*'.

#### 3.5.12.3 Free share plan

In November 2010, the Group awarded all its employees rights to 40 free shares of Société Générale S.A. upon the achievement of two performance conditions and completing a specific period of employment. The allotment of the shares proceeded in two tranches: on 31 March 2015 and on 31 March 2016.

To enhance loyalty and motivation to contribute to long-term growth in the value of the Société Générale Group, the Group can award some of its key employees further free shares (deferred share plan). These free shares are subject to a vesting condition (i.e. presence in the Group at the end of vesting period, which is 4 years) and for certain beneficiaries are also subject to the condition that Société Générale Group records positive net income.

Expenses related to the free share and deferred share plans provided by Société Générale to the Group's employees are recognised in the Group's financial statements as equity-settled share-based payment transactions. The fair value of these instruments, measured using the arbitrage model at the granting date, is spread over the vesting period and recorded in the lines '*Personnel expenses*' and '*Share premium and reserves*' under equity. At the end of each accounting period, the number of these instruments is adjusted in order to take into account performance and service conditions and adjust the overall cost of the plan as originally determined. Expenses recognised under '*Personnel expenses*' from the start of the plan are then adjusted accordingly.

### 3.5.13 Share capital

#### *Dividends on ordinary shares*

Dividends on ordinary shares are recognised as a liability and deducted from equity at the time they are approved by the Group's shareholders.

#### *Treasury shares*

When the Group acquires its own equity instruments, the consideration paid, and including any attributable transaction costs, is recognised as a deduction from the line '*Share premium and reserves*' under equity. Gains and losses on sales of treasury shares are recognised in equity and presented as well in the line '*Share premium and reserves*'.

### 3.5.14 Contingent assets, contingent liabilities and off-balance sheet items

In addition to transactions giving rise to recognition of assets and liabilities in the Statement of Financial Position, the Group enters into transactions through which it generates contingent assets and liabilities. The Group maintains contingent assets and liabilities as off-balance sheet items. The Group monitors these transactions inasmuch as they constitute a substantial proportion of its activities and materially impact the level of risks to which the Group is exposed (they may increase or decrease other risks, for instance, by hedging assets and liabilities reported in the Statement of Financial Position).

A contingent asset or liability is defined as a possible asset or liability that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly under the Group's control.

A contingent liability also exists in the case of a present obligation where an outflow of resources embodying economic benefits probably will not be required to settle the obligation or the amount of the obligation cannot be measured reliably. Contingent liabilities include, for example, irrevocable loan commitments, commitments arising from bank guarantees, bank acceptances, letters of credit and warrants.

In addition to contingent assets and contingent liabilities, the off-balance sheet includes assets arising from valuables and securities custody and fiduciary activities and related obligations to return these to customers (e.g. assets under management).

Off-balance sheet items include also nominal values of such interest and foreign currency instruments as forwards, swaps, options and futures. More information regarding derivative operations is presented in note 3.5.5.11 Derivatives and hedge accounting.

### 3.5.15 Operating segments

Operating segments are reported in accordance with internal reports regularly prepared and presented to the Bank's Board of Directors, which is considered the "chief operating decision maker" (i.e. a person or group of persons that allocates resources and assesses the performance of individual operating segments of the Group).

The Group has the following operating segments:

- *Retail Banking*: includes the provision of products and services to individuals (i.e. predominantly current and savings accounts, term deposits, building savings, pension insurance, overdrafts, credit card loans, personal loans and mortgages);
- *Corporate Banking*: includes the provision of products and services to corporate entities (i.e. current accounts, term deposits, revolving loans, business loans, mortgages, leasing, foreign currency and derivative products, syndicated and export financing, and guarantee transactions);
- *Investment Banking*: involves trading in financial instruments; and
- *Other*: consists of the head office of the Bank.

The Investment Banking segment does not reach quantitative limits for obligatory reporting. The management of the Group nevertheless believes that the information concerning this segment is useful for users of the Financial Statements and thus reports this segment separately.

As the principal activity of the Group is the provision of financial services, the Board of Directors of the Bank assesses the performance of operating segments predominantly according to net interest income. For this reason, interest income and interest expense of individual operating segments are not reported separately but on a net basis.

In addition, the Group monitors net fee and commission income, net profit/(loss) on financial operations, and other income predominantly including income from the lease of non-residential premises by segments. Other profit and loss items are not monitored by operating segments.

The Group does not monitor total assets or total liabilities by segment.

The information on the items of net operating income is provided to the Board of Directors of the Bank using valuations identical to those stated in the Group's financial accounting records.

The Group has no client or group of related parties for which the income from transactions would account for more than 10% of the Group's total income.

### 3.5.16 Regulatory requirements

The Group is subject to the regulatory requirements of the CNB and other institutions. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments, and creation of allowances to cover credit risk associated with the Group's clients, as well as with its liquidity, interest rate and foreign currency positions.

## 3.6 Changes in accounting policies

During the accounting period, there were no changes in accounting policies.

## 4 Segment reporting

	Retail banking		Corporate banking		Investment banking		Other		Total	
(CZKmn)	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net interest income and similar income	12,441	12,363	5,883	7,084	246	85	2,238	1,535	20,808	21,067
Net fee and commission income	4,480	4,418	1,987	2,062	(121)	(40)	119	243	6,465	6,683
Net profit/(loss) on financial operations	956	912	1,615	1,437	915	456	90	1,032	3,576	3,837
Other income	72	75	39	7	142	116	(42)	(35)	211	163
Net operating income	17,949	17,768	9,524	10,590	1,182	617	2,405	2,775	31,060	31,750

Given the specifics of banking activities, the Board of Directors of the Bank (the chief operating decision maker) is provided with information on income, recognition of allowances, write-offs and income tax only for selected segments, rather than consistently for all segments. For this reason, this information is not reported for segments.

As most of the income of segments arises from interest and, in assessing the performance of segments and deciding on allocation of resources for segments, the Board of Directors primarily refers to net interest income, the interest for segments is reported on a net basis, i.e. reduced by interest expense.

Transfer prices between operating segments are based on transfer interest rates representing actual market interest rate conditions, including a liquidity component reflecting the existing opportunities to acquire and invest financial resources.

The Group's income is primarily – more than 98% (2016: more than 99%) – generated on the territory of the Czech Republic.

## 5 Net interest income and similar income

*Net interest income and similar income comprise the following:*

(CZKm)	2017	2016
Interest income and similar income	26,646	26,757
Interest expense and similar expense	(5,842)	(5,692)
Dividend income	4	2
<b>Net interest income and similar income</b>	<b>20,808</b>	<b>21,067</b>
Of which net interest income and similar income from		
– Loans and advances	16,422	16,702
– Held-to-maturity investments	1,869	1,767
– Available-for-sale financial assets	818	700
– Financial liabilities at amortised cost	(1,809)	(1,921)
– Hedging financial derivatives	3,504	3,817
– Dividends	4	2
<b>Total</b>	<b>20,808</b>	<b>21,067</b>

'Interest income and similar income' includes interest on Substandard, Doubtful and Loss loans due from customers of CZK 342 million (2016: CZK 398 million).

'Interest income and similar income' also includes accrued interest income from hedging financial derivatives of CZK 7,538 million (2016: CZK 7,589 million) and 'Interest expense and similar expense' includes accrued interest expense from hedging financial derivatives of CZK 4,034 million (2016: CZK 3,772 million). Net interest income from these derivatives amounts to CZK 3,504 million (2016: CZK 3,817 million). Hedging financial derivatives are used to hedge both the fair value and future cash flows.

In both 2017 and 2016, the Group recorded as part of 'Net interest income and similar income' also negative interest income and expense from selected client's deposits in selected currencies, from selected repo transactions, loro and nostro accounts, and margin accounts deposited at banks. The total amount recognised is not material.

## 6 Net fee and commission income

*Net fee and commission income comprises the following:*

(CZKm)	2017	2016
Deposit product fee and commission income	862	909
Loan fee and commission income	1,218	1,277
Transaction fee and commission income	3,044	3,450
Cross-selling fee income	1,410	1,246
Specialised financial services fee and commission income	980	895
Other fee and commission income	117	137
<b>Total fee and commission income</b>	<b>7,631</b>	<b>7,914</b>
Deposit product fee and commission expense	(176)	(153)
Loan fee and commission expense	(312)	(244)
Transaction fee and commission expense	(364)	(573)
Cross-selling fee expense	(112)	(90)
Specialised financial services fee and commission expense	(138)	(103)
Other fee and commission expense	(64)	(68)
<b>Total fee and commission expenses</b>	<b>(1,166)</b>	<b>(1,231)</b>
<b>Total net fee and commission income</b>	<b>6,465</b>	<b>6,683</b>

'Net fee and commission income' comprises fee income arising from trust and other fiduciary activities in the amount of CZK 625 million (2016: CZK 567 million) and fee expense for these services in the amount of CZK 73 million (2016: CZK 67 million).

## 7 Net profit/(loss) on financial operations

*Net profit/(loss) on financial operations comprises the following:*

(CZKm)	2017	2016
Net realised gains/(losses) on securities held for trading	272	(282)
Net unrealised gains/(losses) on securities held for trading	61	(336)
Net realised gains/(losses) on securities available for sale	0	959
Net realised and unrealised gains/(losses) on security derivatives	(276)	780
Net realised and unrealised gains/(losses) on interest rate derivatives	(288)	330
Net realised and unrealised gains/(losses) on trading commodity derivatives	18	23
Net realised and unrealised gains/(losses) on foreign exchange operations	2,594	1,161
Net realised gains/(losses) on foreign exchange from payments	1,195	1,202
<b>Total net profit/(loss) on financial operations</b>	<b>3,576</b>	<b>3,837</b>

\* This line also includes impacts of derivative trades in emission allowances.

For the year ended 31 December 2016, the line '*Net realised gains/(losses) on securities available-for-sale*' includes the net gain from the sale of an equity stake in Visa Europe Limited in the amount of CZK 959 million (refer to Note 18).

A loss of CZK 631 million (2016: loss of CZK 227 million) on the fair value of interest rate swaps for interest rate risk hedging is included in '*Net realised and unrealised gains/(losses) on interest rate derivatives*'. This amount matches the loss arising from revaluation of hedged loan receivables, available-for-sale financial assets, deposits or repos and issued mortgage bonds reported in the same line.

## 8 Other income

The Group reports '*Other income*' in the amount of CZK 211 million (2016: CZK 163 million). In both 2017 and 2016, '*Other income*' was predominantly composed of income from services provided to the Société Générale Group entities as well as property rental income.

## 9 Personnel expenses

*Personnel expenses comprise the following:*

(CZKm)	2017	2016
Wages, salaries and bonuses	5,234	5,027
Social costs	2,087	2,002
<b>Total personnel expenses</b>	<b>7,321</b>	<b>7,029</b>
Physical number of employees at the end of the period*	8,696	8,615
Average recalculated number of employees during the period*	8,492	8,476
<b>Average cost per employee (CZK)</b>	<b>862,106</b>	<b>829,283</b>

\* Calculation according to Czech Statistical Office methodology.

'*Social costs*' include costs of CZK 93 million (2016: CZK 89 million) paid by the Group to the employees' retirement pension insurance scheme and costs of CZK 45 million (2016: CZK 44 million) incurred in contributing to the employees' capital life insurance scheme.

### *Indexed bonuses*

In 2017, the total amount relating to bonuses indexed on the Komerční banka share price recognised in '*Personnel expenses*' was CZK 39 million (2016: CZK: 45 million) and the total amount of CZK 57 million (2016: CZK 55 million) was recognised as a liability. These amounts do not include the costs of social and health insurance and retirement pension insurance paid by the Group. Net profit from hedging indexed bonuses by fair value hedge and cash flow hedge derivatives was CZK 3 million (2016: net loss of CZK 7 million). The total number of Komerční banka shares according to which bonuses indexed on the Komerční banka share price are calculated is 97,167 shares (2016: 92,850 shares).



The changes in the numbers of Komerční banka shares were as follow:

(in shares)	2017	2016
<b>Balance as of 1 January</b>	<b>92,850</b>	<b>82,860</b>
Paid out during the period	(38,593)	(43,450)
Presumed number of newly guaranteed shares	42,910	53,440
<b>Balance as of 31 December</b>	<b>97,167</b>	<b>92,850</b>

#### Free shares and deferred share plans

For 2017, the total amount relating to the free shares programme and deferred share plans recognised in 'Personnel expenses' is CZK 34 million (2016: CZK 24 million).

The changes in the numbers of shares were as follow:

	2017		2016	
(in shares; EUR)	Number of shares	Average price	Number of shares*	Average price
<b>Balance as of 1 January</b>	<b>144,081</b>	<b>31.58</b>	<b>353,142</b>	<b>35.10</b>
Granted during the year	27,582	41.05	52,647	29.55
Forfeited during the year	(2,143)	31.58	(19,162)	37.19
Exercised during the year	(46,640)	31.58	(242,546)	34.09
<b>Balance as of 31 December</b>	<b>122,880</b>	<b>35.40</b>	<b>144,081</b>	<b>31.58</b>

\* Number of shares was adjusted for the effect of a 1-to-5 split implemented in April 2016.

## 10 General and administrative expenses

General and administrative expenses comprise the following:

(CZKm)	2017	2016
Insurance	75	76
Marketing and representation	657	641
Sale and banking products expenses	307	297
Other employees expenses and travelling	156	142
Real estate expenses	1,071	1,036
IT support	1,025	1,094
Equipment and supplies	142	143
Telecommunications, postage and data transfer	256	258
External consultancy and other services	582	563
Resolution and similar funds	862	880
Other expenses	136	124
<b>Total general and administrative expenses</b>	<b>5,269</b>	<b>5,254</b>

## 11 Depreciation, amortisation, impairment and net profits on other assets

Depreciation, amortisation, impairment and disposal of assets comprise the following:

(CZKm)	2017	2016
Tangible and intangible assets depreciation and amortisation (refer to Notes 25 and 26)	1,667	1,757
Impairment of operating assets	259	(7)
<b>Total depreciation, amortisation and impairment of operating assets</b>	<b>1,926</b>	<b>1,750</b>

The net loss of 'Impairment of operating assets' in the total amount of CZK 259 million (2016: net gain of CZK 7 million) mainly includes the impairment loss on assets for an operating building.

(CZKm)	2017	2016
Net profits on other assets	(1,141)	(7)
<b>Total net profits on other assets</b>	<b>(1,141)</b>	<b>(7)</b>

The net gain of 'Net profits on other assets' in the total amount of CZK 1,141 million (2016: CZK 7 million) mainly includes a net gain from sale of buildings in the amount of CZK 1,052 million (2016: net loss of CZK 2 million) and a net gain from impairment reversal on assets held for sale in the amount of CZK 77 million (2016: CZK 7 million).

## 12 Cost of risk

### Allowance for loan losses and provisions for other credit commitments

The net gain of 'Allowances for loan losses' totalling CZK 387 million (2016: net loss of CZK 1,843 million) includes a net gain from allowances and provisions for loan losses in the amount of CZK 49 million (2016: net loss of CZK 2,192 million) and a net gain from loans written off and transferred in the amount of CZK 338 million (2016: net gain of CZK 349 million).

*The balances and movements of allowances and provisions for loans as of 31 December 2017 were as follow:*

(CZKm)	As of 1 Jan 2017	Effect of acquisition of companies	Charge	Release	Write off and transfer	Foreign exchange	As of 31 Dec 2017
Portfolio allowances for loans to banks (refer to Note 20)	(20)	0	(43)	51	0	2	(10)
Specific allowances for loans to banks (refer to Note 20)	0	0	0	0	0	0	0
Portfolio allowances for loans to customers (refer to Note 21)	(1,305)	0	(757)	790	0	12	(1,260)
– Individuals	(533)	0	(277)	383	0	0	(427)
– Corporates*	(772)	0	(480)	407	0	12	(833)
Specific allowances for loans to customers (refer to Note 21)	(14,267)	0	(6,222)	6,406	2,519	87	(11,477)
– Individuals	(6,359)	0	(1,421)	1,665	1,452	0	(4,663)
– Corporates*	(7,908)	0	(4,801)	4,741	1,067	87	(6,814)
Specific allowances for other amounts due from customers (refer to Note 21)	(11)	0	(2)	(2)	5	0	(10)
Provisions for guarantees and other credit-related commitments (refer to Note 33)	(1,241)	0	(1,147)	974	0	20	(1,394)
– Individuals	(10)	0	(20)	21	0	0	(9)
– Corporates*	(1,231)	0	(1,127)	953	0	20	(1,385)
Specific allowances for other assets (refer to Note 23)	(243)	0	(8)	6	2	0	(243)
<b>Total</b>	<b>(17,087)</b>	<b>0</b>	<b>(8,179)</b>	<b>8,225</b>	<b>2,526</b>	<b>121</b>	<b>(14,394)</b>

\* This item also includes allowances and provisions for loans granted to individual entrepreneurs.

The balances and movements of allowances and provisions for loans as of 31 December 2016 were as follow:

(CZKm)	As of 1 Jan 2016	Effect of acquisition of companies	Charge	Release	Write off and transfer	Foreign exchange	As of 31 Dec 2016
Portfolio allowances for loans to banks (refer to Note 20)	(18)	0	(26)	24	0	0	(20)
Specific allowances for loans to banks (refer to Note 20)	0	0	0	0	0	0	0
Portfolio allowances for loans to customers (refer to Note 21)	(1,200)	(6)	(649)	550	0	0	(1,305)
– Individuals	(472)	(6)	(221)	166	0	0	(533)
– Corporates*	(728)	0	(428)	384	0	0	(772)
Specific allowances for loans to customers (refer to Note 21)	(14,618)	(101)	(8,681)	7,054	2,081	(2)	(14,267)
– Individuals	(7,190)	(49)	(1,506)	1,603	783	0	(6,359)
– Corporates*	(7,428)	(52)	(7,175)	5,451	1,298	(2)	(7,908)
Specific allowances for other amounts due from customers (refer to Note 21)	(16)	0	(1)	1	5	0	(11)
Provisions for guarantees and other credit-related commitments (refer to Note 33)	(783)	0	(1,484)	1,026	0	0	(1,241)
– Individuals	(13)	0	(27)	30	0	0	(10)
– Corporates*	(770)	0	(1,457)	996	0	0	(1,231)
Specific allowances for other assets (refer to Note 23)	(251)	0	(15)	9	14	0	(243)
<b>Total</b>	<b>(16,886)</b>	<b>(107)</b>	<b>(10,856)</b>	<b>8,664</b>	<b>2,100</b>	<b>(2)</b>	<b>(17,087)</b>

\* This item also includes allowances and provisions for loans granted to individual entrepreneurs.

### Provisions for other risk expenses

The net gain of 'Provisions for other risk expenses' of CZK 5 million (2016: CZK 25 million) consists mainly of the charge for provisions of CZK 3 million (2016: CZK 9 million) and the release and use of provisions of CZK 43 million (2016: CZK 37 million) for legal disputes, together with the net costs incurred by the Group as a result of the outcome of legal disputes of CZK 35 million (2016: CZK 3 million).

Additional information on the provisions for other risk expenses is provided in Note 33.

## 13 Income tax

The major components of corporate income tax expense are as follow:

(CZKm)	2017	2016
Tax payable – current year, reported in profit or loss	(3,006)	(2,918)
Tax paid – prior year	(1)	20
Deferred tax (refer to Note 34)	(5)	99
<b>Total income tax</b>	<b>(3,012)</b>	<b>(2,799)</b>

The items explaining the difference between the Group's theoretical and effective tax rates are as follow:

(CZKm)	2017	2016
<b>Profit before income tax</b>	<b>18,286</b>	<b>16,873</b>
Theoretical tax calculated at a tax rate of 19% (2016: 19%)	3,474	3,206
Tax on pre-tax profit adjustments	58	113
Non-taxable income	(2,121)	(1,754)
Expenses not deductible for tax purposes	1,742	1,491
Use of tax losses carried forward	(49)	(44)
Tax allowance	(3)	(2)
Tax credit	0	0
Movement in deferred tax	5	(99)
Tax losses	0	0
Other	(26)	(23)
Impact of various tax rates of subsidiary undertakings	(28)	(30)
Tax effect of share of profits of associated undertakings	(41)	(39)
<b>Income tax expense</b>	<b>3,011</b>	<b>2,819</b>
Prior period tax expense	1	(20)
<b>Total income tax</b>	<b>3,012</b>	<b>2,799</b>
Effective tax rate	16.47%	16.59%

Non-taxable income primarily includes dividends, tax-exempt interest income and release of tax non-deductible allowances and provisions. Expenses not deductible for tax purposes include primarily the recognition of tax non-deductible allowances and provisions and tax non-deductible operating expenses. Tax on pre-tax profit adjustments primarily represents an adjustment of the IFRS result to the Czech Accounting Standards (CAS).

The corporate tax rate for the year ended 31 December 2017 is 19% (2016: 19%). The Group's tax liability is calculated based upon the accounting profit while taking into account tax non-deductible expenses and tax-exempt income or income subject to a final withholding tax rate.

As of 31 December 2017, the Group records unused tax losses in the amount of CZK 18 million (2016: CZK 304 million).

*These tax losses can be used in the following time horizon:*

(CZKm)	1 year	2 years	3 years	4 years	5 years
In the amount of	5	5	5	3	0

Further information about deferred tax is presented in Note 34.

## 14 Distribution of net profit

For the year ended 31 December 2017, the Group generated a net profit of CZK 15,274 million (2016: CZK 14,074 million). Distribution of profits for the year ended 31 December 2017 will be approved by the general meetings of the Group companies.

The Bank's Board of Directors will propose to the Supervisory Board a dividend payment in the amount of CZK 47 per share (2016: CZK 40 per share), which means a total of CZK 8,932 million (2016: CZK 7,602 million). The proposal is subject to the Supervisory Board's approval and subsequently to the approval of the General Shareholders' Meeting.

In accordance with a resolution of the General Shareholders' Meeting held on 25 April 2017, the aggregate balance of the net profit of CZK 14,074 million for the year ended 31 December 2016 was allocated as follows: CZK 7,602 million was paid out in dividends and the remaining balance of the net profit was allocated to retained earnings. The dividends were paid out in Czech crowns.

Moreover, the Group paid out dividends to non-controlling owners in the total amount of CZK 375 million (2016: CZK 375 million), of which CZK 231 million (2016: CZK 375 million) was paid to the non-controlling owners of ESSOX s.r.o and CZK 144 million (2016: CZK 0 million) was paid to the non-controlling owners of SG Equipment Finance Czech Republic.

## 15 Earnings per share

Earnings per share of CZK 79.05 (2016: CZK 72.48 per share) have been calculated by dividing the net profit attributable to the Group's equity holders of CZK 14,930 million (2016: CZK 13,688 million) by the number of shares in issue, that is, 190,049,260, decreased by the average number of treasury shares held by the Group during the period, which was 1,193,360 (2016: 1,193,360 shares).

## 16 Cash and current balances with central banks

Cash and current balances with central banks comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
Cash and cash values	10,070	8,996
Current balances with central banks	22,593	103,245
<b>Total cash and current balances with central banks</b> (refer to Note 37)	<b>32,663</b>	<b>112,241</b>

Obligatory minimum reserves in the amount of CZK 16,546 million (2016: CZK 94,340 million) are included in 'Current balances with central banks' and they bear interest. As of 31 December 2017, the interest rate was 0.50% (2016: 0.05%) in the Czech Republic and 0.00% (2016: 0.00%) in the Slovak Republic.

## 17 Financial assets at fair value through profit or loss

As of 31 December 2017 and 2016, the 'Financial assets at fair value through profit or loss' portfolio includes only securities and positive fair values of derivative financial instruments held for trading. Upon initial recognition, the Group has not designated any financial assets as 'Financial assets at fair value through profit or loss'.

(CZKm)	31 Dec 2017	31 Dec 2016
Securities	2,629	11,445
Derivative financial instruments	16,212	18,264
<b>Total financial assets at fair value through profit or loss</b>	<b>18,841</b>	<b>29,709</b>

For detailed information on derivative financial instruments included in the held for trading portfolio, refer to Note 43(C).

Trading securities comprise the following:

(CZKm)	31 Dec 2017		31 Dec 2016	
	Fair value	Cost*	Fair value	Cost*
<b>Emission allowances</b>	<b>996</b>	<b>821</b>	<b>1,839</b>	<b>1,766</b>
Fixed income debt securities	807	805	6,594	6,477
Variable yield debt securities	669	669	2,140	2,127
Bills of exchange	157	157	872	871
Treasury bills	0	0	0	0
<b>Total debt securities</b>	<b>1,633</b>	<b>1,631</b>	<b>9,606</b>	<b>9,475</b>
<b>Total trading securities</b>	<b>2,629</b>	<b>2,452</b>	<b>11,445</b>	<b>11,241</b>

\* Acquisition cost for shares, participation certificates and emission allowances; amortised acquisition cost excluding coupon for debt securities.

As of 31 December 2017, the portfolio of trading securities included securities at fair value of CZK 2,435 million (2016: CZK 10,516 million) that are publicly traded on stock exchanges and securities at fair value of CZK 194 million (2016: CZK 929 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).



*Emission allowances at fair value comprise the following:*

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Emission allowances</b>		
– Other currencies	996	1,839
<b>Total emission allowances</b>	<b>996</b>	<b>1,839</b>

*Emission allowances at fair value, allocated by issuer, comprise the following:*

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Emission allowances issued by:</b>		
– Foreign financial institutions	996	1,839
<b>Total emission allowances</b>	<b>996</b>	<b>1,839</b>

*Debt securities held for trading at fair value comprise the following:*

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Variable yield debt securities</b>		
– Czech crowns	669	2,140
– Other currencies	0	0
<b>Total variable yield debt securities</b>	<b>669</b>	<b>2,140</b>
<b>Fixed income debt securities (including bills of exchange and treasury bills)</b>		
– Czech crowns	742	6,636
– Other currencies	222	830
<b>Total fixed income debt securities</b>	<b>964</b>	<b>7,466</b>
<b>Total debt securities held for trading</b>	<b>1,633</b>	<b>9,606</b>

*Debt securities held for trading at fair value, allocated by issuer, comprise the following:*

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Debt securities held for trading issued by:</b>		
– State institutions in the Czech Republic	1,506	8,857
– Foreign state institutions	71	658
– Financial institutions in the Czech Republic	55	59
– Foreign financial institutions	0	15
– Other entities in the Czech Republic	1	17
<b>Total debt securities held for trading</b>	<b>1,633</b>	<b>9,606</b>

*Bonds issued by Foreign state institutions designated as financial assets at fair value through profit or loss:*

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Country of issuer</b>	<b>Fair value</b>	<b>Fair value</b>
European Investment Bank	62	62
Slovakia	9	596
<b>Total</b>	<b>71</b>	<b>658</b>

Of the debt securities issued by State institutions in the Czech Republic, CZK 1,189 million (2016: CZK 7,807 million) consist of securities eligible for refinancing with the CNB.

## 18 Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

(CZKm)	31 Dec 2017		31 Dec 2016	
	Fair value	Cost*	Fair value	Cost*
<b>Shares and participation certificates</b>	<b>241</b>	<b>146</b>	<b>182</b>	<b>177</b>
Fixed income debt securities	22,828	21,567	25,577	22,721
Variable yield debt securities	6,643	6,448	13,661	13,224
<b>Total debt securities</b>	<b>29,471</b>	<b>28,015</b>	<b>39,238</b>	<b>35,945</b>
<b>Total available-for-sale financial assets</b>	<b>29,712</b>	<b>28,161</b>	<b>39,420</b>	<b>36,122</b>

\* Acquisition cost for shares and participation certificates; amortised acquisition cost excluding coupon for debt securities.

As of 31 December 2017, the 'Available-for-sale financial assets' portfolio includes securities at fair value of CZK 29,471 million (2016: CZK 39,238 million) that are publicly traded on stock exchanges and securities at fair value of CZK 241 million (2016: CZK 182 million) that are not publicly traded.

As of 31 December 2017, the 'Available-for-sale financial assets' portfolio includes bonds at fair value of CZK 1,233 million (2016: CZK 1,348 million) that are used as collateral for intraday facilities in central banks.

In 2016, the Group sold a stake in Visa Europe Limited. The Group's net gain from the sale was CZK 959 million (refer to Note 7).

Shares and participation certificates available-for-sale at fair value comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Shares and participation certificates</b>		
– Other currencies	241	182
<b>Total shares and participation certificates available-for-sale</b>	<b>241</b>	<b>182</b>

Shares and participation certificates available-for-sale at fair value, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Shares and participation certificates available-for-sale issued by:</b>		
– Other foreign entities	241	182
<b>Total shares and participation certificates available-for-sale</b>	<b>241</b>	<b>182</b>

Debt securities available-for-sale at fair value comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Fixed income debt securities</b>		
– Czech crowns	16,550	18,773
– Other currencies	6,278	6,804
<b>Total fixed income debt securities</b>	<b>22,828</b>	<b>25,577</b>
<b>Variable yield debt securities</b>		
– Czech crowns	4,085	10,951
– Other currencies	2,558	2,710
<b>Total variable yield debt securities</b>	<b>6,643</b>	<b>13,661</b>
<b>Total debt securities available-for-sale</b>	<b>29,471</b>	<b>39,238</b>

Debt securities available-for-sale at fair value, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Debt securities available-for-sale issued by:</b>		
– State institutions in the Czech Republic	19,561	20,222
– Foreign state institutions	7,352	7,935
– Financial institutions in the Czech Republic	2,558	10,259
– Foreign financial institutions	0	822
<b>Total debt securities available-for-sale</b>	<b>29,471</b>	<b>39,238</b>

Debt securities available-for-sale issued by Foreign state institutions comprise the following:

(CZKm) Country of issuer	31 Dec 2017		31 Dec 2016	
	Fair value	Cost*	Fair value	Cost*
Poland	754	639	788	676
Romania	1,744	1,679	1,900	1,833
Slovakia	3,779	3,134	4,117	3,327
European Investment Bank	1,075	1,000	1,130	1,000
<b>Total</b>	<b>7,352</b>	<b>6,452</b>	<b>7,935</b>	<b>6,836</b>

\* Acquisition cost for shares and participation certificates amortised acquisition cost excluding coupon for debt securities

Of the debt securities issued by State institutions in the Czech Republic, CZK 19,561 million (2016: CZK 20,222 million) consist of securities eligible for refinancing with the CNB.

#### Reclassification of certain debt securities held in the portfolio of 'Available-for-sale financial assets'

During the first quarter of 2014, the Group reviewed the accounting recognition of certain debt securities issued by State institutions held in the portfolio of 'Available-for-sale financial assets' (hereafter only "AFS") on the basis of the Group's changing its intention for their classification. The Group concluded that all regulatory and accounting requirements, as well as internal limits, were satisfied for recognition of the debt securities in the nominal value of CZK 56,596 million in the portfolio of 'Held-to-maturity investments' (hereafter only "HTM") and decided to reclassify the respective securities from AFS to HTM. The securities were reclassified at fair value. The corresponding unrealised gains and losses in equity of CZK 5,011 million as of the reclassification date are retained in Other Comprehensive Income. Such amounts are amortised over the remaining life of the security (refer to Note 42).

## 19 Assets held for sale

As of 31 December 2017, the Group reported assets held for sale at a carrying amount of CZK 319 million (2016: CZK 906 million) mainly comprising buildings and land owned by the Group which the management of the Group decided to sell as a component of a plan to optimise the distribution network, equipment obtained by taking possession of leasing collateral and also confiscated cars. Depreciation of these assets has been discontinued since their classification as assets held for sale. As of 31 December 2017, the Group recognised allowances against assets held for sale of CZK 152 million (2016: CZK 402 million).

As of 31 December 2017, 'Assets held for sale' also includes investments in associates classified as assets held for sale at a carrying amount of CZK 8 million (2016: CZK 8 million). For detail, refer to Note 24.

## 20 Amounts due from banks

Balances due from banks comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
Current accounts with other banks (refer to Note 37)	484	1,043
Debt securities	5,557	8,049
Loans and advances to banks	17,726	13,077
Advances due from central bank (reverse repo transactions)	184,522	8,100
Term placements with other banks	20,095	21,522
<b>Total amounts due from banks, gross</b>	<b>228,384</b>	<b>51,791</b>
Portfolio allowances for loans to banks (refer to Note 12)	(10)	(20)
Specific allowances for loans to banks (refer to Note 12)	0	0
<b>Total allowances for loans to banks</b>	<b>(10)</b>	<b>(20)</b>
<b>Total amounts due from banks, net</b>	<b>228,374</b>	<b>51,771</b>

Advances due from the CNB and other banks under reverse repurchase transactions are collateralised by treasury bills issued by the CNB and other debt securities, the fair values of which are as follow:

(CZKm)	31 Dec 2017	31 Dec 2016
Treasury bills	183,503	8,004
Debt securities issued by state institutions	2,028	167
Shares	0	0
Investment certificates	0	0
<b>Total</b>	<b>185,531</b>	<b>8,171</b>

Total amount of advances due from the CNB and other banks under reverse repurchase transactions was CZK 186,554 million (2016: CZK 8,267 million).

### Securities acquired as loans and receivables

As of 31 December 2017, the Group maintains in its portfolio bonds at an amortised cost of CZK 5,557 million (2016: CZK 8,049 million) and a nominal value of CZK 5,524 million (2016: CZK 7,901 million), of which bonds with a nominal value of CZK 99 million (2016: CZK 2,099 million) and EUR 79 million (2016: EUR 79 million) are issued by Financial institutions in the Czech Republic and CZK 705 million (2016: CZK 705 million) and EUR 106 million (2016: EUR 110 million) are issued by Foreign financial institutions.

## 21 Loans and advances to customers

Loans and advances to customers comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
Loans to customers	602,937	591,146
Bills of exchange	218	243
Forfaits	588	815
<b>Total loans and advances to customers excluding debt securities and other amounts due to customers, gross</b>	<b>603,743</b>	<b>592,204</b>
Debt securities	3,635	3,193
Other amounts due from customers	3,471	384
<b>Total loans and advances to customers, gross</b>	<b>610,849</b>	<b>595,781</b>
Portfolio allowances for loans to customers (refer to Note 12)		
– Individuals	(429)	(532)
– Corporates*	(831)	(773)
Specific allowances for loans to customers (refer to Note 12)		
– Individuals	(4,673)	(6,368)
– Corporates*	(6,804)	(7,899)
<b>Total allowances for loans to customers (refer to Note 12)</b>	<b>(12,737)</b>	<b>(15,572)</b>
Specific allowances for other amounts due from customers (refer to Note 12)	(10)	(11)
<b>Total allowances for loans and other amounts due from customers</b>	<b>(12,747)</b>	<b>(15,583)</b>
<b>Total loans and advances to customers, net</b>	<b>598,102</b>	<b>580,198</b>

\* This item also includes allowances for loans granted to individual entrepreneurs.

As of 31 December 2017, loans and advances to customers include accrued interest of CZK 1,051 million (2016: CZK 1,175 million), of which CZK 438 million (2016: CZK 495 million) relates to interest from overdue receivables.

As of 31 December 2017, loans provided to customers under reverse repurchase transactions in the amount of CZK 1,256 million (2016: CZK 6 million) are collateralised by securities with a fair value of CZK 1,567 million (2016: CZK 4 million).

*As of 31 December 2017, the loan portfolio of the Group (excluding Debt securities and Other amounts due from customers) is comprised of the following, as broken down by classification:*

(CZKm)	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value
Standard	575,640	276,103	299,537	(804)*	574,836
Watch	9,499	3,781	5,718	(456)*	9,043
Substandard	4,584	2,495	2,089	(1,521)	3,063
Doubtful	2,132	566	1,566	(1,080)	1,052
Loss	11,888	1,497	10,391	(8,876)	3,012
<b>Total</b>	<b>603,743</b>	<b>284,442</b>	<b>319,301</b>	<b>(12,737)</b>	<b>591,006</b>

\* This item includes portfolio allowances (due to losses incurred but not reported).

*As of 31 December 2016, the loan portfolio of the Group (excluding Debt securities and Other amounts due from customers) was comprised of the following, as broken down by classification:*

(CZKm)	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value
Standard	560,453	258,770	301,683	(697)*	559,756
Watch	9,346	3,961	5,385	(608)*	8,738
Substandard	5,895	3,050	2,845	(2,167)	3,728
Doubtful	2,088	961	1,127	(727)	1,361
Loss	14,422	1,505	12,917	(11,373)	3,049
<b>Total</b>	<b>592,204</b>	<b>268,247</b>	<b>323,957</b>	<b>(15,572)</b>	<b>576,632</b>

\* This item includes portfolio allowances (due to losses incurred but not reported).



Set out below is a breakdown of loans by sector (excluding Debt securities and Other amounts due from customers):

(CZKm)	31 Dec 2017	31 Dec 2016
Food industry and agriculture	18,233	17,083
Mining and extraction	3,927	4,543
Chemical and pharmaceutical industry	7,439	6,700
Metallurgy	13,187	10,219
Automotive industry	12,827	11,950
Manufacturing of other machinery	9,168	9,565
Manufacturing of electrical and electronic equipment	3,955	4,392
Other processing industry	11,504	11,510
Power plants, gas plants and waterworks	17,364	19,706
Construction industry	10,706	10,868
Retail	17,225	15,901
Wholesale	27,605	29,350
Accommodation and catering	1,902	1,564
Transportation, telecommunication and warehouses	24,296	23,045
Banking and insurance industry	24,300	24,841
Real estate	46,894	51,307
Public administration	24,439	27,931
Other industries	35,970	33,726
Individuals	292,802	278,003
<b>Total loans to customers</b>	<b>603,743</b>	<b>592,204</b>

The majority of loans – more than 91% (2016: more than 90%) – were provided to entities on the territory of the Czech Republic.

Broken out below are the types of collateral held in support of loans and advances to customers as stated in the Consolidated Statement of Financial Position:

(CZKm)	31 Dec 2017			31 Dec 2016		
	Total client loan collateral*	Discounted client loan collateral value**	Applied client loan collateral value***	Total client loan collateral*	Total client loan collateral*	Applied client loan collateral value***
Guarantees of state and governmental institutions	1,328	1,046	1,044	3,097	2,328	2,325
Bank guarantee	17,605	16,781	16,575	14,961	14,183	14,086
Guaranteed deposits	8,530	8,396	7,569	8,505	8,384	7,710
Pledge of real estate	484,717	314,652	232,206	449,258	292,686	215,319
Pledge of movable assets	13,949	1,338	1,312	13,053	2,082	1,279
Guarantee by legal entity	27,528	19,930	14,310	30,114	19,895	13,808
Guarantee by individual (natural person)	2,447	233	222	2,821	275	260
Pledge of receivables	31,142	786	0	29,046	1,578	15
Insurance of credit risk	8,856	8,411	8,410	11,628	11,054	11,045
Other	4,718	3,368	2,794	3,977	3,263	2,400
<b>Nominal value of collateral</b>	<b>600,820</b>	<b>374,941</b>	<b>284,442</b>	<b>566,460</b>	<b>355,728</b>	<b>268,247</b>

\* The nominal value of the collateral is determined based on internal rules of the Group (e.g. internal property valuation, current value of collateral, market value of securities, etc.).

\*\* The nominal value of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc.

\*\*\* The applied collateral value is the discounted collateral value reduced to the actual balance of the collateralised exposure.

Pledges on industrial real estate represent 8% of total pledges on real estate (2016: 10%).

## Debt securities designated as loans and receivables

As of 31 December 2017, the Group holds in its portfolio bonds at an amortised cost of CZK 3,104 million (2016: CZK 2,759 million) and a nominal value of CZK 3,042 million (2016: CZK 2,697 million), of which bonds with a nominal value of CZK 450 million (2016: CZK 450 million) are issued by State institutions in the Czech Republic, USD 1 million (2016: USD 0 million) by Foreign state institutions, CZK 2,110 million (2016: CZK 1,744 million) by Other entities in the Czech Republic and EUR 16 million (2016: EUR 16 million) and CZK 68 million (2016: CZK 68 million) by Other foreign entities. Additionally, the Group holds in this portfolio bills of exchange at an amortised cost of CZK 505 million (2016: CZK 388 million) and a nominal value of CZK 507 million (2016: CZK 389 million), of which bills of exchange in the nominal value of CZK 300 million (2016: CZK 210 million) are issued by State institutions in the Czech Republic and CZK 207 million (2016: CZK 179 million) by Other entities in the Czech Republic. The portfolio is hedged using fair value hedge derivatives with a positive fair value of CZK 26 million (2016: CZK 46 million).

## Forborne loans and advances to customers

### Forborne loans and advances to customers as of 31 December 2017

(CZKm)	Neither past due nor impaired	Past due not impaired	Impaired	Total forborne	Allowances	Collateral applied
Individuals	1,413	230	1,409	3,052	629	2,149
Corporates*	294	29	2,574	2,897	1,522	798
<b>Total</b>	<b>1,707</b>	<b>259</b>	<b>3,983</b>	<b>5,949</b>	<b>2,151</b>	<b>2,947</b>

\* This item also includes loans granted to individual entrepreneurs.

### Forborne loans and advances to customers as of 31 December 2016

(CZKm)	Neither past due nor impaired	Past due not impaired	Impaired	Total forborne	Allowances	Collateral applied
Individuals	1,211	221	1,608	3,040	705	2,107
Corporates*	447	14	2,519	2,980	1,392	1,151
<b>Total</b>	<b>1,658</b>	<b>235</b>	<b>4,127</b>	<b>6,020</b>	<b>2,097</b>	<b>3,258</b>

\* This item also includes loans granted to individual entrepreneurs.

### The carrying value of forborne assets in comparison with the loan portfolio of the Group (excluding Debt securities and Other amounts due from customers):

(CZKm)	31 Dec 2017			31 Dec 2016		
	Gross receivable	Forborne assets	Share in gross receivable	Gross receivable	Forborne assets	Share in gross receivable
Individuals	290,419	3,052	1.05 %	275,528	3,040	1.10 %
Corporates*	313,324	2,897	0.92 %	316,676	2,980	0.94 %
<b>Total</b>	<b>603,743</b>	<b>5,949</b>	<b>0.99 %</b>	<b>592,204</b>	<b>6,020</b>	<b>1.02 %</b>

\* This item also includes loans granted to individual entrepreneurs.

### Portfolio and specific allowances for forborne assets:

(CZKm)	31 Dec 2017			31 Dec 2016		
	Portfolio allowances	Specific allowances	Total	Portfolio allowances	Specific allowances	Total
Individuals	13	616	629	15	690	705
Corporates*	24	1,498	1,522	36	1,356	1,392
<b>Total</b>	<b>37</b>	<b>2,114</b>	<b>2,151</b>	<b>51</b>	<b>2,046</b>	<b>2,097</b>

\* This item also includes allowances for loans granted to individual entrepreneurs.

## Finance lease

Within the Group, ESSOX s.r.o., PSA FINANCE ČESKÁ REPUBLIKA, s.r.o., PSA FINANCE SLOVAKIA, s.r.o. and SG Equipment Finance Czech Republic s.r.o. provide lease services. Assets leased under lease arrangements at ESSOX s.r.o. and PSA FINANCE ČESKÁ REPUBLIKA, s.r.o. primarily include new passenger and utility vehicles with an average lease instalment period of 60 months (2016: 60 months). At PSA FINANCE SLOVAKIA, s.r.o., leased assets primarily include passenger and utility vehicles with an average lease instalment period of 46 months (2016: 60 months). At SG Equipment Finance Czech Republic s.r.o. leased assets primarily include trucks, tractors and buses with an average lease instalment period of 64 months (2016: 63 months), agricultural vehicles and machines with an average lease instalment period of 60 months (2016: 62 months), machine technology with an average lease instalment period of 66 months (2016: 66 months), hardware and software technology with an average lease instalment period of 44 months (2016: 43 months) and real estate with an average lease instalment period of 9 years (2016: 9 years).

### Loans and advances to customers – leasing

(CZKm)	31 Dec 2017	31 Dec 2016
Due less than 1 year	5,127	4,805
Due from 1 to 5 years	9,099	9,003
Due over 5 years	491	531
<b>Total</b>	<b>14,717</b>	<b>14,339</b>

Future interest (the difference between gross and net investment in the lease) on lease contracts is:

(CZKm)	31 Dec 2017	31 Dec 2016
Due less than 1 year	313	317
Due from 1 to 5 years	394	423
Due over 5 years	19	22
<b>Total</b>	<b>726</b>	<b>762</b>

As of 31 December 2017, the provisions recognised against uncollectible lease receivables amount to CZK 344 million (2016: CZK 529 million).

## 22 Held-to-maturity investments

Held-to-maturity investments comprise the following:

(CZKm)	31 Dec 2017		31 Dec 2016	
	Carrying value	Cost*	Carrying value	Cost*
Fixed income debt securities	59,915	58,745	65,462	64,176
<b>Total held-to-maturity investments</b>	<b>59,915</b>	<b>58,745</b>	<b>65,462</b>	<b>64,176</b>

\* Amortised acquisition cost excluding coupon.

As of 31 December 2017, the 'Held-to-maturity investments' portfolio includes bonds of CZK 59,915 million (2016: CZK 65,462 million) that are publicly traded on stock exchanges and bonds of CZK 0 million (2016: CZK 0 million) that are not publicly traded.

As of 31 December 2017, the 'Held-to-maturity investments' portfolio includes bonds of CZK 976 million (2016: CZK 107 million) that are used as collateral for derivative deals with a central counterparty.

*Fixed income debt securities held-to-maturity comprise the following:*

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Fixed income debt securities</b>		
– Czech crowns	47,528	51,393
– Foreign currencies	12,387	14,069
<b>Total fixed income debt securities</b>	<b>59,915</b>	<b>65,462</b>

*Fixed income debt securities held-to-maturity, allocated by issuer, comprise the following:*

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Fixed income debt securities issued by:</b>		
– State institutions in the Czech Republic	50,216	54,295
– Foreign state institutions	9,699	11,167
<b>Total fixed income debt securities</b>	<b>59,915</b>	<b>65,462</b>

*Debt securities held-to-maturity issued by Foreign state institutions comprise the following:*

(CZKm)	31 Dec 2017		31 Dec 2016	
Country of Issuer	Fair value	Cost*	Fair value	Cost*
Slovakia	2,697	2,476	2,822	3,096
Poland	7,422	7,002	7,938	7,818
<b>Total</b>	<b>10,119</b>	<b>9,478</b>	<b>10,760</b>	<b>10,914</b>

\* Amortised acquisition cost excluding coupon.

## 23 Prepayments, accrued income and other assets

*Prepayments, accrued income and other assets comprise the following:*

(CZKm)	31 Dec 2017	31 Dec 2016
Prepayments and accrued income	675	722
Settlement balances	624	223
Receivables from securities trading	342	78
Other assets	4,182	3,896
<b>Total prepayments, accrued income and other assets</b>	<b>5,823</b>	<b>4,919</b>

‘Other assets’ include receivables of CZK 665 million (2016: CZK 668 million) from the state budget consisting of contributions to participants in the construction savings scheme and to holders of pension insurance policies, allowances for operating receivables for other debtors in the amount of CZK 243 million (2016: CZK 243 million), and in particular also advances provided and receivables for other debtors.

## 24 Investments in associates and non-controlling interests in subsidiaries

Investments in associates comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
Investments in associated undertakings	1,181	1,280
<b>Total investments in associates</b>	<b>1,181</b>	<b>1,280</b>

In March 2016, the Bank concluded an agreement on sale of its interest in Cataps, s.r.o. with Worldline SA/NV based upon which the Bank transferred its merchant acquiring into Cataps, s.r.o. and subsequently sold its 80% stake in Cataps, s.r.o. Both steps were performed in September 2016. The remaining 20% stake in Cataps, s.r.o. at CZK 181 million was reclassified as 'Assets held for sale' due to expected sale of this company.

The following companies are associated undertakings of the Group as of 31 December 2017:

(CZKm) Associates	%	31 Dec 2017		31 Dec 2016	
		Cost of investment	Share of net assets	Cost of investment	Share of net assets
Komerční pojišťovna, a.s.	49.00	837	1,179	837	1,278
Czech Banking Credit Bureau, a.s.*	20.00	0	2	0	2
<b>Total investments in associates</b>		<b>837</b>	<b>1,181</b>	<b>837</b>	<b>1,280</b>

Associates classified in held for sale portfolio	%	31 Dec 2017		31 Dec 2016	
		Cost of investment	Share of net assets	Cost of investment	Share of net assets
Cataps, s.r.o.	20.00	8	180	8	181
<b>Total investments in associates**</b>		<b>845</b>	<b>1,361</b>	<b>845</b>	<b>1,461</b>

\* The cost of investment for CBCB – Czech Banking Credit Bureau, a.s. is CZK 240 thousand.

\*\* Including associates classified in held for sale portfolio.

(CZKm) Associates	31 Dec 2017			
	Assets	Liabilities	Operating income	Profit
Komerční pojišťovna, a.s.	53,167	50,761	884	437
Czech Banking Credit Bureau, a.s.	47	26	127	10
Cataps, s.r.o.	992	149	205	74

(CZKm) Associates	31 Dec 2016			
	Assets	Liabilities	Operating income	Profit
Komerční pojišťovna, a.s.	55,478	52,870	821	410
Czech Banking Credit Bureau, a.s.	25	14	121	9
Cataps, s.r.o.	1,125	357	48	38



### Movements in share of associated undertakings:

(CZK m)	Komerční pojišťovna, a.s	Czech Banking Credit Bureau, a.s	Cataps, s.r.o.	Total
As of 1 January 2016	1,217	2	0	1,219
Dividend payment	(150)	(2)	0	(152)
Share of profit	201	2	0	203
Revaluation of investment	0	0	181	181
Share of revaluation on available-for-sale assets	10	0	0	10
As of 31 December 2016	1,278	2	181	1,461
Dividend payment	(202)	(2)	0	(204)
Share of profit	214	2	0	216
Revaluation of investment	0	0	(1)	(1)
Share of revaluation on available-for-sale assets	(111)	0	0	(111)
<b>As of 31 December 2017</b>	<b>1,179</b>	<b>2</b>	<b>180</b>	<b>1,361</b>

### Main financial information about subsidiaries within which the Group holds non-controlling interests:

(CZK m)	31 Dec 2017			31 Dec 2016		
	Assets	Liabilities	Profit	Assets	Liabilities	Profit
SG Equipment Finance Czech Republic s.r.o.*	28,951	24,879	312	28,794	24,745	268
ESSOX s.r.o.**	13,164	9,587	412	11,571	7,937	458
PSA FINANCE ČESKÁ REPUBLIKA, s.r.o.**	2,574	1,819	(2)	3,067	2,310	29
PSA FINANCE SLOVAKIA, s.r.o.**	2,166	2,017	(25)	1,859	1,675	8

\* Non-controlling interest in SG Equipment Finance Czech Republic s.r.o. is 49.9%.

\*\* Non-controlling interest in each ESSOX s.r.o., PSA FINANCE ČESKÁ REPUBLIKA, s.r.o. and PSA FINANCE SLOVAKIA, s.r.o. is 49.1%.

### Movements in non-controlling interests:

(CZK m)	SG Equipment Finance Czech Republic s.r.o.	ESSOX s.r.o.	PSA FINANCE ČESKÁ REPUBLIKA, s.r.o.	PSA FINANCE SLOVAKIA, s.r.o.	Total
As of 1 January 2016	1,885	1,931	X	X	3,816
Dividend payment	0	(375)	0	0	(375)
Profit / loss	134	224	21	7	386
Share based payment	1	3	0	0	4
Increasing of shareholders' equity	0	0	0	0	0
Cash flow hedging	0	0	0	0	0
As of 31 December 2016	2,020	1,783	21	7	3,831
Dividend payment	(144)	(231)	0	0	(375)
Profit / loss	156	202	(1)	(13)	344
Share based payment		1	0	0	1
Increasing of shareholders' equity	0	0	0	0	0
Cash flow hedging	0	0	0	(4)	(4)
<b>As of 31 December 2017</b>	<b>2,032</b>	<b>1,755</b>	<b>20</b>	<b>(10)</b>	<b>3,797</b>

Additional information about the Group's equity investments is presented in Notes 1 and 2.

## 25 Intangible assets

The movements in intangible assets were as follow:

(CZKm)	Internally generated assets*	Software	Other intangible assets	Acquisition of assets	Total
<b>Cost</b>					
As of 1 January 2016	10,812	2,855	31	1,093	14,791
Effect of acquisition of companies	0	2	0	0	2
Additions	902	200	0	1,116	2,218
Disposals/transfers	0	(29)	(2)	(1,102)	(1,133)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2016	11,714	3,028	29	1,107	15,878
Effect of acquisition of companies	0	0	0	0	0
Additions	1,151	184	0	1,860	3,195
Disposals/transfers	(249)	(2)	0	(1,336)	(1,587)
Foreign exchange rate difference	0	(2)	0	0	(2)
<b>As of 31 December 2017</b>	<b>12,616</b>	<b>3,208</b>	<b>29</b>	<b>1,631</b>	<b>17,484</b>
<b>Accumulated amortisation and allowances</b>					
As of 1 January 2016	(8,672)	(2,221)	(31)	0	(10,924)
Effect of acquisition of companies	0	(1)	0	0	(1)
Additions	(902)	(192)	0	0	(1,094)
Disposals	0	29	3	0	32
Impairment charge	0	(3)	0	(2)	(5)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2016	(9,574)	(2,388)	(28)	(2)	(11,992)
Effect of acquisition of companies	0	0	0	0	0
Additions	(836)	(195)	0	0	(1,031)
Disposals	249	2	0	0	251
Impairment charge	(29)	0	0	0	(29)
Foreign exchange rate difference	0	1	0	0	1
<b>As of 31 December 2017</b>	<b>(10,190)</b>	<b>(2,580)</b>	<b>(28)</b>	<b>(2)</b>	<b>(12,800)</b>
<b>Net book value</b>					
As of 31 December 2016	2,140	640	1	1,105	3,886
<b>As of 31 December 2017</b>	<b>2,426</b>	<b>628</b>	<b>1</b>	<b>1,629</b>	<b>4,684</b>

\* Internally generated assets comprise mainly software.

During the year ended 31 December 2017, the Group expended CZK 141 million (2016: CZK 185 million) on research and development (when conditions for capitalisation were not met) through a charge to 'Operating expenses'.

As of 31 December 2017, the Group recognised allowances against intangible assets of CZK 36 million (2016: CZK 9 million). These allowances primarily included allowances charged in respect of internally generated assets (software).

## 26 Tangible assets

The movements in tangible assets were as follow:

(CZKm)	Land	Buildings	Machinery, furniture and fixtures and other	Acquisition of assets	Total
<b>Cost</b>					
As of 1 January 2016	329	10,963	4,865	438	16,595
Effect of acquisition of companies	0	0	4	0	4
Reallocation from/to assets held for sale	(5)	(692)	(17)	0	(714)
Additions	0	106	345	906	1,357
Disposals/transfers	0	(10)	(234)	(560)	(804)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2016	324	10,367	4,963	784	16,438
Effect of acquisition of companies	0	0	0	173	173
Reallocation from/to assets held for sale	0	0	0	0	0
Additions	42	480	517	1,452	2,491
Disposals/transfers	0	(35)	(409)	(1,044)	(1,488)
Foreign exchange rate difference	0	(1)	(1)	0	(2)
<b>As of 31 December 2017</b>	<b>366</b>	<b>10,811</b>	<b>5,070</b>	<b>1,365</b>	<b>17,612</b>
<b>Accumulated depreciation and allowances</b>					
As of 1 January 2016	0	(5,803)	(3,948)	0	(9,751)
Effect of acquisition of companies	0	0	(2)	0	(2)
Reallocation of accumulated depreciation of assets held for sale	0	415	14	0	429
Additions	0	(368)	(293)	(2)	(663)
Disposals	0	8	245	0	253
Impairment charge	0	9	(47)	0	(38)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2016	0	(5,739)	(4,031)	(2)	(9,772)
Effect of acquisition of companies	0	0	0	0	0
Reallocation of accumulated depreciation of assets held for sale	0	0	0	0	0
Additions	0	(332)	(300)	0	(632)
Disposals	0	34	365	0	399
Impairment charge	0	(240)	35	0	(205)
Foreign exchange rate difference	0	1	1	0	2
<b>As of 31 December 2017</b>	<b>0</b>	<b>(6,276)</b>	<b>(3,930)</b>	<b>(2)</b>	<b>(10,208)</b>
<b>Net book value</b>					
As of 31 December 2016	324	4,628	932	782	6,666
<b>As of 31 December 2017</b>	<b>366</b>	<b>4,535</b>	<b>1,140</b>	<b>1,363</b>	<b>7,404</b>

As of 31 December 2017, the Group recognised allowances against tangible assets of CZK 251 million (2016: CZK 45 million). These allowances primarily included allowances charged in respect of Nonet building in the amount of CZK 241 million (2016: CZK 0 million) represented by the excess of net book value over recoverable amount determined as fair value less costs to sell (based on the Bank's headquarters optimisation strategy).

## 27 Goodwill

Goodwill by individual companies as of 31 December 2017 was as follows:

(CZKm)	31 Dec 2017	31 Dec 2016
Modrá pyramida stavební spořitelna, a.s.	3,388	3,388
ESSOX s.r.o.	163	163
SG Equipment Finance Czech Republic s.r.o.	201	201
<b>Total goodwill</b>	<b>3,752</b>	<b>3,752</b>

The management is of the view that reasonable potential changes in the key assumptions for Modrá pyramida stavební spořitelna, a.s. upon which the recoverable amount is based would not cause it to fall below the carrying amount given the fact that the value in use is significantly greater than the carrying amount. Impairment of goodwill is considered unlikely.

## 28 Financial liabilities at fair value through profit or loss

As of 31 December 2017 and 2016, the 'Financial liabilities at fair value through profit or loss' portfolio includes only liabilities arising from short sales of securities and negative fair values of financial derivative instruments held for trading. Upon initial recognition, the Group has not designated any financial liabilities as 'Financial liabilities at fair value through profit or loss'.

(CZKm)	31 Dec 2017	31 Dec 2016
Sold securities	1,673	160
Derivative financial instruments	17,631	18,007
<b>Total financial liabilities at fair value through profit or loss</b>	<b>19,304</b>	<b>18,167</b>

For detailed information on financial derivative instruments included in the portfolio for trading, refer to Note 43(C).

## 29 Amounts due to banks

Amounts due to banks comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
Current accounts (refer to Note 37)	8,838	3,220
Amounts due to banks	75,212	50,904
<b>Total amounts due to banks</b>	<b>84,050</b>	<b>54,124</b>

The fair values of securities and treasury bills used as collateral for repurchase transactions are as follow:

(CZKm)	31 Dec 2017		31 Dec 2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at fair value through profit or loss	51	51	403	403
Available-for-sale financial assets	725	725	758	758
Held-to-maturity investments	4,539	4,726	4,888	4,862
Securities received as collateral	0	0	0	0
<b>Total</b>	<b>5,315</b>	<b>5,502</b>	<b>6,049</b>	<b>6,023</b>

Total amount of loans from banks received under repurchase transactions was CZK 5,144 million (2016: CZK 5,803 million).

## 30 Amounts due to customers

Amounts due to customers, by type of deposit, comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
Current accounts	556,897	496,353
Savings accounts	163,657	160,632
Term deposits	27,945	29,828
Amounts received from customers	5,961	5,198
Other payables to customers	7,583	7,366
<b>Total amounts due to customers</b>	<b>762,043</b>	<b>699,377</b>

The fair value of securities and treasury bills used as collateral for repurchase transactions received from customers was CZK 6,018 million (2016: CZK 5,217 million), comprising securities received as collateral.

Amounts due to customers, by type of customer, comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
Private companies	237,494	220,756
Other financial institutions, non-banking entities	41,737	21,480
Insurance companies	4,191	5,615
Public administration	47	577
Individuals	307,405	287,931
Individuals – entrepreneurs	32,808	30,498
Government agencies	81,632	77,309
Other	18,777	16,665
Non-residents	37,952	38,546
<b>Total amounts due to customers</b>	<b>762,043</b>	<b>699,377</b>

## 31 Securities issued

Securities issued comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
Mortgage bonds	2,762	11,030
Depository bills of exchange	2,070	2,393
<b>Total securities issued</b>	<b>4,832</b>	<b>13,423</b>

The Group issues mortgage bonds to fund its mortgage activities.

The following table shows a summary of cash and non-cash changes in the balance of securities issued:

(CZKm)	31 Dec 2016	Cash flow	Amortisation and accrued interest	Non-cash changes	
				Change of FV hedge of interest rate risk	31 Dec 2017
Mortgage bonds	11,030	(8,577)	309	0	2,762
Depository bills of exchange	2,393	(334)	11	0	2,070
<b>Total securities issued</b>	<b>13,423</b>	<b>(8,911)</b>	<b>320</b>	<b>0</b>	<b>4,832</b>

(CZKm)	31 Dec 2015	Cash flow	Amortisation and accrued interest	Non-cash changes	
				Change of FV hedge of interest rate risk	31 Dec 2016
Mortgage bonds	11,283	(556)	303	0	11,030
Depository bills of exchange	10,120	(7,776)	49	0	2,393
<b>Total securities issued</b>	<b>21,403</b>	<b>(8,332)</b>	<b>352</b>	<b>0</b>	<b>13,423</b>

*Mortgage bonds according to their remaining time to maturity break out as follows:*

(CZKm)	31 Dec 2017	31 Dec 2016
In less than one year	1,753	0
In one to five years	1,009	1,745
In five to ten years	0	1,007
In ten to twenty years	0	0
More than twenty years	0	8,278
<b>Total debt securities</b>	<b>2,762</b>	<b>11,030</b>

*The securities issued detailed above include the following mortgage bonds issued by the Group:*

Name	Interest rate	Currency	Issue date	Maturity date	31 Dec 2017 CZKm	31 Dec 2016 CZKm
HZL Komerční banky, a.s., CZ0002001753	Rate of the interest rate swap sale in CZK for 10 years plus 150 bps	CZK	21 Dec 2007	21 Dec 2037	0	8,278
HZL Komerční banky, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	1,009	1,745
HZL Komerční banky, a.s., CZ0002003064	6M PRIBOR plus 50 bps	CZK	14 Mar 2013	14 Mar 2018	1,753	1,007
<b>Total mortgage bonds</b>					<b>2,762</b>	<b>11,030</b>

Six-month PRIBOR as of 31 December 2017 was 85 bps (2016: 35 bps).

The value of the interest rate swap CZK sale average for ten years as of 31 December 2017 was 187 bps (2016: 88 bps).

## 32 Accruals and other liabilities

*Accruals and other liabilities comprise the following:*

(CZKm)	31 Dec 2017	31 Dec 2016
Accruals and deferred income	320	344
Settlement balances and outstanding items	18	1
Payables from securities trading and issues of securities	4,613	3,305
Payables from payment transactions	7,861	6,633
Other liabilities	6,057	5,867
<b>Total accruals and other liabilities</b>	<b>18,869</b>	<b>16,150</b>

Deferred fees from banking guarantees are reported in 'Accruals and deferred income' in the amount of CZK 18 million (2016: CZK 19 million).

'Other liabilities' mainly include liabilities arising from the delivery of goods and services and relationships with employees (including estimated balances).

## 33 Provisions

*Provisions comprise the following:*

(CZKm)	31 Dec 2017	31 Dec 2016
Provisions for contracted commitments (refer to Notes 12 and 38)	517	473
Provisions for other credit commitments (refer to Note 12)	1,394	1,241
<b>Total provisions</b>	<b>1,911</b>	<b>1,714</b>

The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise the provisions for ongoing contracted contingent commitments, legal disputes, self-insurance and the retirement benefits plan.



*Provisions for other credit commitments are broken out below by type of risks covered:*

(CZKm)	31 Dec 2017	31 Dec 2016
Provision for off-balance sheet commitments	1,306	1,206
Provision for undrawn loan facilities	88	35
<b>Total (refer to Note 12)</b>	<b>1,394</b>	<b>1,241</b>

*Movements in the provisions for contracted commitments were as follow:*

(CZKm)	Retirement benefits plan	Provisions for loyalty and jubilee bonuses	Other provisions for contracted commitments	Total
Balance as of 1 January 2016	201	2	175	378
Charge	13	1	38	52
Release	0	(1)	(54)	(55)
Use	(10)	0	(12)	(22)
Accrual	4	0	0	4
Remeasurement	115	0	0	115
Foreign exchange difference	0	0	1	1
Balance as of 31 December 2016	323	2	148	473
Charge	24	0	80	104
Release	(11)	(1)	(38)	(50)
Use	(1)	(1)	(35)	(37)
Accrual	5	0	0	5
Remeasurement	28	0	0	28
Foreign exchange difference	0	0	(6)	(6)
<b>Balance as of 31 December 2017</b>	<b>368</b>	<b>0</b>	<b>149</b>	<b>517</b>

## 34 Deferred tax

Deferred tax is calculated from temporary differences between the tax bases and carrying values using tax rates effective in the periods in which the temporary tax differences are expected to be utilised.

*Net deferred tax assets are as follow:*

(CZKm)	31 Dec 2017	31 Dec 2016
Banking provisions and allowances	0	0
Allowances for assets	0	0
Non-banking provisions	56	69
Difference between accounting and tax net book value of assets	(3)	(1)
Leases	6	6
Remeasurement of retirement benefits plan – equity impact (refer to Note 39)	0	0
Revaluation of hedging derivatives – equity impact (refer to Note 40)	0	0
Revaluation of available-for-sale financial assets – equity impact (refer to Note 41)	0	0
Other temporary differences	11	4
<b>Net deferred tax assets</b>	<b>70</b>	<b>78</b>

*Net deferred tax liabilities are as follow:*

(CZKm)	31 Dec 2017	31 Dec 2016
Banking provisions and allowances	298	284
Allowances for assets	82	77
Non-banking provisions	71	87
Difference between accounting and tax net book value of assets	(1,104)	(1,036)
Leases	11	(58)
Remeasurement of retirement benefits plan – equity impact (refer to Note 40)	36	31
Revaluation of hedging derivatives – equity impact (refer to Note 41)	(40)	(2,668)
Revaluation of available-for-sale financial assets – equity impact (refer to Note 42)	(504)	(701)
Other temporary differences	151	154
<b>Net deferred tax liabilities</b>	<b>(999)</b>	<b>(3,830)</b>

*Movements in the net deferred tax assets/(liabilities) were as follow:*

(CZKm)	2017	2016
<b>Balance as of the beginning of the period</b>	<b>(3,752)</b>	<b>(4,514)</b>
Effect of acquisition of companies	(2)	6
Movement in the net deferred tax – profit and loss impact (refer to Note 13)	(5)	99
Movement in the net deferred tax – equity impact (refer to Notes 40, 41 and 42)	2,830	657
<b>Balance as of the end of the period</b>	<b>(929)</b>	<b>(3,752)</b>

### 35 Subordinated debt

In relation to optimising its capital structure, the Bank took on subordinated debt of EUR 100 million (equivalent to CZK 2,554 million) on 9 October 2017 (2016: CZK 0 million) which is part of Tier 2 regulatory capital and was granted by its parent company, Société Générale S.A. The subordinated debt is euro-denominated in order to better align the currency structure of the Bank's regulatory capital and risk-weighted assets. The subordinated debt bears an interest rate of 3-month EURIBOR plus 1.26%. It has a 10-year maturity but with the Bank having an option for early repayment after five years. The subordinated loan strengthened the Bank's capital buffer in response to increasing regulatory capital requirements while enhancing the Bank's capacity to grow risk-weighted assets.

### 36 Share capital

The Bank's share capital, entered in the Register of Companies on 11 February 2000, amounts to CZK 19,004,926,000 and consists of 190,049,260 ordinary bearer shares issued as uncertificated securities with a nominal value of CZK 100 each (ISIN: CZ0008019106). The number of shares authorised is the same as the number of shares issued. The share capital is fully paid up.

The Bank's shares are publicly traded on stock markets in the Czech Republic managed by the market organisers Burza cenných papírů Praha, a.s. (the Prague Stock Exchange) and RM-SYSTÉM, česká burza cenných papírů a.s. (the Czech Stock Exchange). Their transferability is not restricted.

Rights are attached to the ordinary shares in accordance with Act No. 90/2012 Coll., on Business Corporations and Co-operatives. No special rights are attached to the shares. Shareholders' voting rights are governed by the nominal value of their shares. The voting rights can only be eliminated on statutory grounds. The Bank cannot exercise voting rights attached to its own shares.

Shareholders are entitled to share in the Bank's profit (dividend) approved for distribution by the Annual General Meeting based on the Bank's financial results and in accordance with the conditions stipulated by generally binding legal regulations.

The right to payment of the dividend is time-barred from three years after its declared payment date. Pursuant to a resolution of the Annual General Meeting held in 2009, the Board of Directors will not plead the statute of limitations in order to bar by lapse of time the payment of dividends for the duration of 10 years from the date of dividend payment. After the lapse of 10 years from the date of dividend payment, the Board of Directors is obliged to plead the statute of limitations and to transfer the unpaid dividends to the retained earnings account.

In the event of a shareholder's death, his or her legal heir shall be entitled to exercise all rights attached to the shares. Upon the Bank's liquidation and dissolution, the means of liquidation are governed by the relevant generally binding legal regulations. The proposal for the distribution of the liquidation balance among shareholders is approved by the Annual General Meeting in proportion to the nominal values of the shares held by the Bank's shareholders.

*Set out below is a summary of the entities that hold more than 1% of the Bank's issued share capital as of 31 December 2017:*

Name of the entity	Ownership percentage
SOCIÉTÉ GÉNÉRALE S.A.	60.35%
Nortrust Nominees Limited	4.12%
Chase Nominees Limited	3.65%
Brown Brothers Harriman	2.68%
CLEARSTREAM BANKING, s.a.	2.37%
STATE STREET BANK AND TRUST COMPANY	2.31%
GIC PRIVATE LIMITED	1.79%
J.P. MORGAN BANK	1.45%

Société Générale S.A., being the only entity with a qualified holding in the Group, and moreover as the parent company, is a French company limited by shares incorporated by a Deed approved through the issuance of a Decree on 4 May 1864 and is licensed as a bank. Under the legislative and regulatory provisions relating to financial institutions, notably the articles of the Monetary and Financial Code, the Company is subject to commercial laws, in particular Articles 210-1 et seq. of the French Commercial Code, as well as its Articles of Association.

As of 31 December 2017, the Bank held 1,193,360 of its own share in treasury at a cost of CZK 726 million (2016: 1,193,360 treasury shares at a cost of CZK 726 million).

### Capital management

The Basel III rules valid for capital regulation did not change the process for managing the Group's regulatory capital adequacy, but they naturally were taken into account in setting the parameters for this process, in particular with regard to application of the combined capital buffer and additional Pillar 2 buffer above and beyond the minimum required capital ratio of 8.0%. The regulatory methodology was substantially stabilised in 2016 (in particular the stacking order of capital buffers), and consequently an additional Pillar 2 buffer of 1.4% is applied to the Group on top of the minimum required capital ratio of 8.0%. That means the total SREP (supervisory review and evaluation process) capital requirement (TSCR) is now 9.4%. A combined capital buffer of 6.0% is applied on top of the TSCR capital ratio thus resulting in the required overall capital ratio (OCR) of 15.4% for the year 2017 (an increase of 0.9% in comparison with the previous year, mainly due to the newly applied countercyclical capital buffer and an increase in the systemic risk buffer). The combined capital buffer consists of the capital conservation buffer of 2.5%, the systemic risk buffer of 3.0% and, required for the first time in the Czech Republic, a countercyclical buffer of 0.5%. As its capital ratio stands well above the minimum required level, the Group meets the required level of the overall capital ratio with an adequate reserve.

The required overall capital ratio (OCR) increases for the Group to 15.5% as of 1 January 2018 (a rise of 0.1% compared to 2017 due to an increase of the additional Pillar 2 buffer to level 1.5%) and furthermore to 16.0% as of 1 July 2018 (rising by another 0.5% due to an increase of the countercyclical capital buffer in the Czech Republic to the 1.0% level).

The Group manages its capital adequacy to ensure its sufficient level in an environment of changing regulatory requirements while allowing organic business growth and for potentially adverse macroeconomic development. Under the Basel III capital adequacy regulation, just as under the previous Basel II regulation, in addition to the usual reporting of the capital ratio (Pillar 1), the Group must meet the requirements for evaluating required economic capital, stress testing and capital planning (Pillar 2). To determine the required economic capital, the Group has selected methods close to the regulatory procedures applied for Pillar 1. Consequently, the necessary levels of economic and regulatory capital are very similar.

The Group regularly simulates future developments under Pillar 2 based on the assumption of possible adverse external macroeconomic conditions that may either directly affect the Group's profit or have implications resulting in deterioration in the Group's transaction risk profile.

The Group compiles hypothetical macroeconomic scenarios on the basis of which it estimates medium-term impacts on earnings and on transaction risk profiles. On this basis, the Group acquires views concerning the changing volume of the risk-weighted assets (i.e. capital requirements) and the financial results while also taking into account the outlook for dividend payments and the level of the Group's capital adequacy ratio.

The results of such stress testing are among those factors considered in determining the Group's dividend policy, which is the primary tool for capital adequacy management in such situation that the Group's capital is largely classified as Common Equity Tier 1 capital.

The Group's capital consists principally of the following balances: share capital, reserve funds, retained earnings and Tier 2 subordinated debt (which was taken on by the Bank in 2017).

The Group did not purchase its own shares into treasury during 2017. As of 31 December 2017, the Group holds in total 1,193,360 treasury shares at a total cost of CZK 726 million purchased in previous years (2016: 1,193,360 treasury shares at a total cost of CZK 726 million). The acquisition of treasury shares had been approved by the Bank's General Meeting especially for the purpose of managing the Group's capital adequacy.

In view of the facts that the capital requirements under Basel III regulation (the capital buffers in particular, typically the countercyclical buffer) can vary over time and a part of the implementing regulatory rules and the regulation itself are still being developed, the Group is continuously monitoring and evaluating the forthcoming changes in regulatory requirements affecting the capital and capital adequacy. It analyses their potential impacts as part of the Group's capital planning process.

The CNB, as the local regulatory authority, oversees the Group's capital adequacy compliance on both separate and consolidated bases. During the past year, the Group was in compliance with all regulatory requirements. The Group also regularly prepares the regulatory report on Pillar 2 (i.e. internal capital adequacy assessment process) and submits it to the CNB.

### 37 Composition of cash and cash equivalents as reported in the Statement of Cash Flows

(CZKm)	31 Dec 2017	31 Dec 2016	Change in the year
Cash and current balances with central banks (refer to Note 16)	32,663	112,241	(79,578)
Amounts due from banks – current accounts with other banks (refer to Note 20)	484	1,043	(559)
Amounts due to central banks	(1)	(1)	0
Amounts due to banks – current accounts (refer to Note 29)	(8,838)	(3,220)	(5,618)
<b>Cash and cash equivalents at the end of the year</b>	<b>24,308</b>	<b>110,063</b>	<b>(85,755)</b>

The table below shows a correction of the Cash Flow statement due to the elimination of mutual operations between Group members:

(CZKm)	2016 As reported	Restate	2016 Restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received	24,026		24,026
Interest paid	(4,287)		(4,287)
Fee and commission received	7,915		7,915
Fee and commission paid	(1,407)		(1,407)
Net cash received from financial operations	(2,399)		(2,399)
Other receipts	110		110
Cash payments to employees and suppliers, and other payments	(12,450)		(12,450)
<b>Operating cash flow before changes in operating assets and operating liabilities</b>	<b>16,306</b>		<b>16,306</b>
Amounts due from banks	(3,331)	(1,063)	(4,394)
Financial assets at fair value through profit or loss	(507)		(507)
Loans and advances to customers	(43,765)		(43,765)
Other payments received	118		118
<b>(Increase)/decrease in operating assets</b>	<b>(47,485)</b>	<b>(1,063)</b>	<b>(48,548)</b>
Amounts due to banks (received/paid)	(6,192)		(6,192)
Financial liabilities at fair value through profit or loss	(1,329)		(1,329)
Amounts due to customers	(43,952)	(460)	43,492
Other payments made	145		145
<b>Increase/(decrease) in operating liabilities</b>	<b>36,576</b>	<b>(460)</b>	<b>36,116</b>
Net cash flow from operating activities before taxes	5,397	(1,523)	3,874
Income tax paid	(2,335)		(2,335)
<b>Net cash flow from operating activities</b>	<b>3,062</b>	<b>(1,523)</b>	<b>1,539</b>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>			
Dividends received	154		154
Purchase of held-to-maturity investments	(6,005)		(6,005)
Maturity of held-to-maturity investments*	8,640		8,640
Purchase of available-for-sale financial assets	(1,353)		(1,353)
Sale and maturity of available-for-sale financial assets*	3,762		3,762
Purchase of tangible and intangible assets	(2,089)		(2,089)
Sale of tangible and intangible assets	57		57
Purchase of investments in subsidiaries and associates	(885)		(885)
Sale of investments in subsidiaries and associates	727		727
Effect of acquisition of companies	(157)		(157)
<b>Net cash flow from investment activities</b>	<b>2,851</b>		<b>2,851</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid	(11,735)		(11,735)
Dividends paid to non-controlling interest	(375)		(375)
Securities issued	0		0
Securities redeemed*	(9,874)	1,523	(8,351)
<b>Net cash flow from financing activities</b>	<b>(21,984)</b>	<b>1,523</b>	<b>(20,461)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(16,071)</b>	<b>0</b>	<b>(16,071)</b>
Cash and cash equivalents at the beginning of the year	126,132		126,132
Foreign exchange differences on cash and cash equivalents at beginning of year	2		2
Cash and cash equivalents at the end of the year (refer to Note 37)	110,063		110,063

\* The amount also includes coupons received and paid.

## 38 Commitments and contingent liabilities

### Legal disputes

The Group conducted a review of legal proceedings outstanding against it as of 31 December 2017. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Group has recorded a provision of CZK 22 million (2016: CZK 23 million) for these legal disputes (refer to Note 33). The Group has also recorded a provision of CZK 5 million (2016: CZK 43 million) for costs associated with a potential payment of appurtenances on the pursued claims.

As of 31 December 2017, the Group conducted a review of legal proceedings it had filed against other entities. The Group has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Group will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

### Commitments arising from the issuance of guarantees

Commitments from guarantees represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to the third parties. These assurances carry the same credit risk as do loans, and therefore the Group makes provisions for these instruments (according to a customer's creditworthiness) on the same basis as is applicable to loans.

### Capital commitments

As of 31 December 2017, the Group had capital commitments of CZK 888 million (2016: CZK 367 million), which include capital commitments in respect of current capital investment projects in the amount of CZK 624 million (2016: CZK 66 million).

### Commitments arising from the issuance of letters of credit

Documentary letters of credit are written irrevocable commitments by the Group on behalf of a customer (the mandatory) authorising a third party (the beneficiary) to draw drafts on the Group up to a stipulated amount under specific terms and conditions. The Group records provisions for these instruments (according to a customer's creditworthiness) on the same basis as is applicable to loans.

### Commitments to extend credit, undrawn loan commitments and overdrafts and approved overdraft loans

Principal off-balance sheet exposures include undrawn limits under framework agreements to provide financial services, approved overdraft loans, undrawn loan commitments, issued commitments to extend credit and unutilised facilities. The primary purpose of commitments to extend credit and framework agreements is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credit in the forms of loans or guarantees. In accordance with the IFRS definition of a conditional commitment, the Group distinguishes between irrevocable and revocable commitments to extend credit and framework agreements. The irrevocability of commitments, framework agreements of undrawn loan commitments, unutilised overdrafts and approved overdraft loans results from contractual terms and conditions of the credit agreements (i.e. their use is not contingent upon customers' maintaining other specific credit standards). For irrevocable commitments or framework agreements, undrawn loan commitments, unutilised overdrafts and approved overdraft loans, the Group recognises a provision when required (according to a customer's credit worthiness) in accordance with the same algorithm as for loans.

### Financial commitments and contingencies comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
Non-payment guarantees including commitments to issued non-payment guarantees	34,461	36,248
Payment guarantees including commitments to issued payment guarantees	15,974	14,939
Committed facilities and unutilised overdrafts	11,494	9,476
Undrawn credit commitments	69,484	62,644
Unutilised overdrafts and approved overdraft loans	13,673	15,674
Unutilised limits under framework agreements to provide financial services	7,787	9,445
Open customer/import letters of credit not covered	898	755
Standby letters of credit not covered	1,024	1,091
Confirmed supplier/export letters of credit	794	22
<b>Total commitments and contingencies</b>	<b>155,589</b>	<b>150,294</b>

The risk associated with off-balance sheet credit commitments and contingent liabilities is assessed on the same basis as is that of loans to customers, taking into account the financial position and activities of the entity to which the Group issued the guarantee and the collateral obtained. As of 31 December 2017, the Group recorded provisions for these risks in the amount of CZK 1,393 million (2016: CZK 1,241 million). Refer to Note 33.



Set out below is a breakdown of financial commitments and contingencies by sector:

(CZKm)	31 Dec 2017	31 Dec 2016
Food industry and agriculture	9,680	10,356
Mining and extraction	470	668
Chemical and pharmaceutical industry	2,677	3,622
Metallurgy	5,194	4,692
Automotive industry	2,437	1,501
Manufacturing of other machinery	7,288	7,749
Manufacturing of electrical and electronic equipment	1,391	2,468
Other processing industry	1,821	2,014
Power plants, gas plants and waterworks	5,436	4,674
Construction industry	30,004	31,989
Retail	3,005	3,731
Wholesale	8,267	7,865
Accommodation and catering	465	400
Transportation, telecommunication and warehouses	7,413	9,292
Banking and insurance industry	4,531	7,760
Real estate	5,084	3,300
Public administration	8,247	4,201
Other industries	17,635	13,308
Individuals	34,544	30,704
<b>Total commitments and contingencies</b>	<b>155,589</b>	<b>150,294</b>

The majority of commitments and contingencies originate on the territory of the Czech Republic.

The collateral held in support of financial commitments and contingencies is broken out below by type:

	31 Dec 2017			31 Dec 2016		
(CZKm)	Total commitments and contingencies collateral*	Discounted commitments and contingencies collateral value**	Applied commitments and contingencies collateral value***	Total commitments and contingencies collateral*	Discounted commitments and contingencies collateral value**	Applied commitments and contingencies collateral value***
Guarantees of state or governmental institution	629	502	502	658	523	523
Bank guarantee	1,811	1,725	1,688	1,651	1,515	1,475
Guaranteed deposits	2,046	2,037	1,939	2,223	2,210	2,108
Pledge of real estate	14,041	8,731	7,306	11,810	7,318	6,040
Pledge of movable assets	118	12	12	84	8	8
Guarantee by legal entity	7,531	5,689	5,669	6,540	1,988	1,821
Guarantee by individual (natural person)	0	0	0	50	10	10
Pledge of receivables	3,082	0	0	1,939	0	0
Insurance of credit risk	789	743	743	1,560	1,476	1,476
Other	27	3	2	21	0	0
<b>Total nominal value of collateral</b>	<b>30,074</b>	<b>19,442</b>	<b>17,861</b>	<b>26,536</b>	<b>15,048</b>	<b>13,461</b>

\* The nominal value of the collateral is determined based on internal rules of the Group (e.g. internal property valuation, current value of collateral, market value of securities).

\*\* The nominal value of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling of the collateral, risk of declining market prices, risk of insolvency, etc.

\*\*\* The applied collateral value is the discounted collateral value reduced to the actual balance of the collateralised exposure.

In accordance with Act No. 427/2011, on Supplementary Pension Saving, and in accordance with the statutes of Transformovaný fond KB Penzijní společnost, a.s. (hereafter only the "Fund") created after 1 January 2013, KB Penzijní společnost, a.s. guarantees at least a zero return for clients on an annual basis and must ensure that the value of assets in the Fund is always equal to or greater than the value of liabilities. Otherwise, KB Penzijní společnost, a.s. is required to contribute to the Fund assets necessary to make up the difference at latest within 30 days after the end of the quarter in which such circumstance was identified. These transferred assets constitute a special capital fund of the Fund and are primarily used to cover losses of the current year or accumulated losses from prior periods.

In accordance with the Fund's conservative strategy and based on sensitivity analysis, the usage of the guarantee is not probable in the near future as of the financial statements date.

### 39 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. As of 31 December 2017, the Group was controlled by Société Générale S.A., which owns 60.35% of its issued share capital.

A number of banking transactions are entered into with related parties in the normal course of business. These specifically include loans, deposits, transactions with derivative financial instruments and other types of transactions. These transactions are carried out on an arm's length basis.

#### Amounts due to and from the Group companies

As of 31 December 2017, the Group had deposits of CZK 936 million (2016: CZK 1,677 million) due to the associate Komerční pojišťovna, a.s. The positive fair value of financial derivatives in relation to the associate Komerční pojišťovna, a.s. amounted to CZK 559 million (2016: CZK 1,521 million) and the negative fair value to CZK 439 million (2016: CZK 46 million). The book value of mortgage bonds issued by the Bank was CZK 805 million (2016: CZK 806 million) and interest expense from mortgage bonds amounted to CZK 20 million (2016: CZK 20 million).

Interest income from financial derivatives of Komerční pojišťovna, a.s. to the Group amounted to CZK 820 million (2016: CZK 853 million) and interest expense on financial derivatives totalled CZK 561 million (2016: CZK 566 million). Interest expense from deposits amounted to CZK 3 million (2016: CZK 1 million), fee income of the Group arising from intermediation totalled CZK 418 million (2016: CZK 380 million), fee expense amounted to CZK 74 million (2016: CZK 68 million), insurance expenses totalled CZK 13 million (2016: CZK 18 million) and other income totalled CZK 18 million (2016: CZK 15 million).

#### Amounts due to and from the Société Générale Group entities

*Principal balances due from the Société Générale Group entities include the following:*

(CZKm)	31 Dec 2017		31 Dec 2016	
	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o. (Czech Republic)	6,185	0	5,146	0
ALD Automotive s.r.o. (Slovak Republic)	160	0	370	0
BRD – GROUPE Société Générale SA	22	0	30	0
PJSC Rosbank	205	0	146	0
SG Bruxelles	26	0	137	0
SG Express Bank	56	0	15	0
SG Marocaine de Banques	0	0	4	0
SG New York	0	0	498	0
SG Paris	8,771	4,633	9,724	4,311
SG S.A. Oddział w Polsce	1	0	2	0
SG Zurich	175	0	176	0
SGA Société Générale Acceptance	2,708	0	2,989	0
Société Générale China Limited	1	0	3	0
Société Générale – Splitska Banka d.d	0	0	11	0
Société Générale International Limited	2,572	0	473	0
SKB Banka D.D. Ljubljana	1	0	0	0
Société Générale Banka Srbija	1	0	0	0
<b>Total</b>	<b>20,884</b>	<b>4,633</b>	<b>19,724</b>	<b>4,311</b>

Principal balances owed to the Société Générale Group entities include the following:

(CZKm)	31 Dec 2017		31 Dec 2016	
	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o. (Czech Republic)	368	0	368	0
ALD Automotive s.r.o. (Slovak Republic)	27	0	0	0
BRD – GROUPE Société Générale SA	79	0	8	0
Crédit du Nord	12	0	7	0
PEMA Praha, spol. s r.o.	70	0	101	0
PJSC Rosbank	1	0	0	0
SG Amsterdam	23	0	47	0
SG Banques au Liban	2	0	1	0
SG Bruxelles	0	0	50	0
SG ISSUER	1	0	1	0
SG Frankfurt	41	0	8	0
SG London	78	0	13	0
SG New York	16	0	1	0
SG Paris	38,863	6,988	22,965	7,025
SG Private Banking /Suisse/ S.A.	67	0	184	0
SG S.A. Oddział w Polsce	98	0	1	0
SG Zurich	1	0	0	0
SGSS Nantes	11	0	3	0
Société Générale Bank & Trust	123	0	178	0
Société Générale – Splitska Banka d.d	0	0	1	0
SG Express Bank	2	0	0	0
SG Option Europe	1	0	0	0
SOGEPROM Česká republika, s.r.o.	5	0	5	0
<b>Total</b>	<b>39,889</b>	<b>6,988</b>	<b>23,942</b>	<b>7,025</b>

Amounts due to and from the Société Générale Group entities principally comprise balances of current and overdraft accounts, nostro and loro accounts, subordinated debt, issued loans, interbank market loans and placements, deposited margins in favour of the counterparty and fair values of derivatives.

As of 31 December 2017, the Group also carried off-balance sheet exposures to the Société Générale Group entities, of which off-balance sheet nominal assets and liabilities amounted to CZK 464,341 million (2016: CZK 348,641 million) and CZK 427,482 million (2016: CZK 323,315 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances and guarantees for credit exposures.

As of 31 December 2017 and 2016, the Group also recorded other accounts receivable and payable from and to Société Générale Group entities the amounts of which are not significant.

During the year ended 31 December 2017, the Group had total income of CZK 32,527 million (2016: CZK 22,435 million) and total expenses of CZK 32,733 million (2016: CZK 19,243 million) in relation to Société Générale Group entities. That income includes income from interbank deposits, fees from transactions with securities, profit from financial operations and interest income on hedging derivatives. Expenses comprise those of interbank deposits and subordinated debt, a loss from financial operations, interest expense on hedging derivatives and expenses related to the provision of management, consultancy and software services.

## Remuneration and amounts due from members of the Board of Directors and Supervisory Board

Remuneration paid to the members of the Board of Directors and Supervisory Board during the years was as follows:

(CZKm)	2017	2016
Remuneration to members of the Board of Directors*	56	58
Remuneration to members of the Supervisory Board**	5	6
<b>Total</b>	<b>61</b>	<b>64</b>

\* **Remuneration to members of the Board of Directors** includes wages paid and other compensation and benefits provided during the year ended 31 December 2017 to current and former directors for the duration of their membership. It also includes a part of bonuses awarded in 2017. The remuneration includes as well benefits arising to the Bank's employees under the collective agreement.

\*\* **Remuneration to members of the Supervisory Board** includes amounts paid during the year ended 31 December 2017 to current and former members of the Supervisory Board for the duration of their membership. Amounts for members of the Supervisory Board elected by employees additionally include income paid to them under their employment arrangements with the Bank for the duration of their membership. The remuneration also includes benefits arising to the Bank's employees under the collective agreement.

	31 Dec 2017	31 Dec 2016
Number of the Board of Directors members at the end of the period	6	5
Number of the Supervisory Board members at the end of the period	9	9

In respect of loans and guarantees as of 31 December 2017, the Group recorded receivables from loans granted to members of the Board of Directors and Supervisory Board totalling CZK 12 million (2016: CZK 15 million). During 2017, draw-downs of CZK 0 million (2016: CZK 1 million) were made under the loans granted. Loan repayments during 2017 amounted to CZK 1 million (2016: CZK 1 million). Loans to resigning members amounted to CZK 2 million as of 31 December 2016.

## 40 Movements in the remeasurement of retirement benefits plan in the equity

(CZKm)	2017	2016
Remeasurement of retirement benefits plan as of 1 January	(162)	(47)
Deferred tax asset/(liability) as of 1 January	31	9
<b>Balance as of 1 January</b>	<b>(131)</b>	<b>(38)</b>
<b>Movements during the year</b>		
Gains/(losses) from remeasurement of retirement benefits plan	(28)	(115)
Deferred tax	5	22
	<b>(23)</b>	<b>(93)</b>
Remeasurement of retirement benefits plan as of 31 December	(190)	(162)
Deferred tax asset/(liability) as of 31 December (refer to Note 34)	36	31
<b>Balance as of 31 December</b>	<b>(154)</b>	<b>(131)</b>

## 41 Movements in the revaluation of hedging instruments in the equity

In accordance with IAS 39, certain derivatives were designated as hedges. The changes in fair values of cash flow hedges are recorded in a separate line of equity in the hedging reserve.

### Balance of hedging instruments in equity at the beginning of the period

(CZKm)	2017	2016
Cash flow hedge fair value as of 1 January	14,047	15,623
Deferred tax asset/(liability) as of 1 January	(2,668)	(2,970)
<b>Balance as of 1 January</b>	<b>11,379</b>	<b>12,653</b>
<b>Movements during the year</b>		
Gains/(losses) from changes in fair value (refer to Note 43(C))	(10,586)	2,417
Deferred tax	2,000	(458)
	<b>(8,586)</b>	<b>1,959</b>
Transferred to interest income/expense	(3,299)	(3,999)
Deferred tax	627	761
	<b>(2,672)</b>	<b>(3,238)</b>
Transferred to net profit/loss on financial operations	0	1
Deferred tax	0	0
	0	1
Transferred to personnel expenses	(3)	5
Deferred tax	1	(1)
	<b>(2)</b>	<b>4</b>
Cash flow hedge fair value as of 31 December	159	14,047
Deferred tax asset/(liability) as of 31 December (refer to Note 34)	(40)	(2,668)
<b>Balance as of 31 December</b>	<b>119</b>	<b>11,379</b>

## 42 Movements in the revaluation of available-for-sale financial assets in the equity

(CZKm)	2017	2016
Reserve from fair value revaluation as of 1 January	4,125	5,994
Deferred tax asset/(liability) as of 1 January	(701)	(1,034)
<b>Balance as of 1 January</b>	<b>3,424</b>	<b>4,960</b>
<b>Movements during the year</b>		
Gains/(losses) from changes in fair value	(607)	(181)
Deferred tax	74	12
	<b>(533)</b>	<b>(169)</b>
(Gains)/losses from reclassified financial assets (refer to Note 18)	(646)	(728)
Deferred tax	123	139
	<b>(523)</b>	<b>(589)</b>
(Gains)/losses from the sale	0	(960)
Deferred tax	0	182
	<b>0</b>	<b>(778)</b>
Reserve from fair value revaluation as of 31 December	2,872	4,125
Deferred tax asset/(liability) as of 31 December (refer to Note 34)	(504)	(701)
<b>Balance as of 31 December</b>	<b>2,368</b>	<b>3,424</b>

## 43 Risk management and financial instruments

### (A) Credit risk

#### **Assessment of borrower's credit rating**

The assessment of credit risk is based on quantitative and qualitative criteria, which leads to a rating assignment. The Group uses several types of rating models, depending on the type and profile of the counterparty and the types of transactions. As a result, specific ratings are assigned to both the Group's clients and to specific client transactions. The same process of rating assignment is applied in relevant cases to respective guarantors and sub-debtors, which enables better assessment of the quality of accepted guarantees and collaterals.

In 2017, the Group focused on updating selected credit risk models in order optimally to reflect the current macroeconomic situation and goals set by the Group as well as on increasing effectiveness in monitoring the risk profiles of individual client portfolios and the quality of tools and models for credit risk management. The Bank also continued in harmonising governance, usage of rating models and monitoring process within the Group.

As in previous years, the results of regular stress testing played an important role, allowing more precise estimates of the expected intensity of credit risk for the ensuing periods and thus optimisation of the Group's credit risk management tools and more accurate estimation of expected future losses.

#### **(a) Business clients and municipalities**

For entrepreneurs, corporate clients and municipalities, the Group uses the obligor rating (expressed on the 22-grade Société Générale rating master scale) with the aim to evaluate the counterparty's Probability of Default (PD) and the Loss Given Default (LGD) rating to assess the quality of available guarantees and collaterals and to evaluate the potential loss from counterparty transactions. These models are also used for regular updates of Expected Loss (EL) and Unexpected Loss (UL) for all client exposures reported in accordance with the Basel III requirements.

For large and medium-sized clients, the obligor rating is a combination of the financial rating based primarily on data in the financial statements and an economic rating obtained through the evaluation of non-financial information relating to a particular client.

In the entrepreneurs and small companies segment, the client's obligor rating is a combination of financial, non-financial and personal data, data on client behaviour within the Group and information from external credit bureaus. When clients are funded via simple products, the setting of the rating is alternatively limited to the evaluation of data on clients' behaviour within the Group (behavioural rating).

In the municipalities segment, the obligor rating is a combination of the financial rating based on data in the financial statements and of an economic rating acquired through the assessment of non-financial information relating to a specific municipality.

The Group is also using a dedicated rating model for housing co-operatives and association of owners. A special model for real estate developers and investors is currently in the validation phase.

#### **(b) Ratings for banks and sovereigns**

For banks, other financial institutions (namely insurance companies, brokers and funds) and for sovereigns (central banks and central governments), the Group uses economic rating models developed by Société Générale.

#### **(c) Ratings for individual clients**

The Group uses two types of ratings with the aim of evaluating default risk for individuals: (1) the application rating, which results from an evaluation of clients' personal data, data on the behaviour within the Group, and data available from external credit bureaus; and (2) a behavioural rating which is based on evaluating information on the clients' behaviour within the Group. The application rating is primarily used for active applications of clients for funding, while the behavioural rating (which includes the calculation of indicative limits for simple products with low exposure) is used for active offers of funding by the Group. The behavioural rating of clients is concurrently used as an input for regular updates of the probability of default of all client exposures reported in accordance with the Basel III requirements.

#### **(d) Internal register of negative information**

The Group maintains an internal register of negative information. The register integrates the maximum quantity of available internal and external negative information on subjects related to the credit process. It includes algorithms for evaluating the negative information and contributes substantially to protecting the Group from risky entities.



(e) **Credit bureaus**

The evaluation of data from credit bureaus is one of the principal factors influencing the assessment of applications for client funding, and especially so in the retail client segments (individuals and small businesses).

(f) **Credit fraud prevention**

The Group uses an automated system for the detection of credit frauds and also for co-ordinated reactions to credit fraud attacks. The system is fully integrated with the Group's main applications. The system is regularly updated to reflect current market trends. Development of processes and controls preventing credit frauds in the small business segment was initiated in 2017, and this work will continue through 2018.

**Credit concentration risk**

Credit concentration risk is actively managed as a part of overall credit risk management utilising standard tools, credit risk assessment, setting of internal limits, use of risk mitigation techniques, regular reporting, producing of sector analyses and stress testing. The Group maintains its objective not to take on any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, countries, selected industry sectors and collateral providers. The system of internal limits is established so that the Group complies with the regulatory limits set by legislation in respect of concentration risk. Refer to Notes 21 and 38 for quantitative information about this type of risk.

**The Group's maximum credit exposure as of 31 December 2017:**

(CZKmn)	Total exposure			Collateral applied		
	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
<b>Current balances with central banks</b>	<b>22,593</b>	<b>x</b>	<b>22,593</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Financial assets at fair value through profit or loss</b>	<b>18,841</b>	<b>x</b>	<b>18,841</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Positive fair value of hedging financial derivatives</b>	<b>13,408</b>	<b>x</b>	<b>13,408</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Available-for-sale financial assets</b>	<b>29,712</b>	<b>x</b>	<b>29,712</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Amounts due from banks</b>	<b>228,384</b>	<b>2,866</b>	<b>231,250</b>	<b>181,250</b>	<b>119</b>	<b>181,369</b>
<b>Loans and advances to customers</b>	<b>610,849</b>	<b>152,723</b>	<b>763,572</b>	<b>284,442</b>	<b>17,742</b>	<b>302,184</b>
– Individuals	290,419	34,430	324,849	218,975	5,322	224,297
of which: mortgage loans	217,695	15,745	233,440	188,282	5,158	193,440
consumer loans	27,611	2,232	29,843	4,676	4	4,680
constructions savings scheme loans	41,250	9,091	50,341	25,540	151	25,691
– Corporates**	313,324	118,293	431,617	65,467	12,420	77,887
of which: top corporate clients	130,787	69,262	200,049	36,168	7,029	43,197
– Debt securities	3,635	x	3,635	0	x	0
– Other amounts due from customers	3,471	x	3,471	0	x	0
<b>Revaluation differences on portfolios hedge items</b>	<b>(251)</b>	<b>x</b>	<b>(251)</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Held-to-maturity investments</b>	<b>59,915</b>	<b>x</b>	<b>59,915</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Total</b>	<b>983,451</b>	<b>155,589</b>	<b>1,139,040</b>	<b>465,692</b>	<b>17,861</b>	<b>483,553</b>

\* Undrawn amounts, commitments, guarantees, etc.

\*\* This item also includes loans provided to individual entrepreneurs.

The maximum credit exposure is presented on a gross basis (i.e. without the impact of allowances).

*The Group's maximum credit exposure as of 31 December 2016:*

(CZKm)	Statement of		Total exposure		Collateral applied	
	financial position	Off-balance sheet*	Total credit exposure	financial position	Off-balance sheet*	Total collateral
<b>Current balances with central banks</b>	<b>103,245</b>	<b>x</b>	<b>103,245</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Financial assets at fair value through profit or loss</b>	<b>29,709</b>	<b>x</b>	<b>29,709</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Positive fair value of hedging financial derivatives</b>	<b>22,331</b>	<b>x</b>	<b>22,331</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Available-for-sale financial assets</b>	<b>39,420</b>	<b>x</b>	<b>39,420</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Amounts due from banks</b>	<b>51,791</b>	<b>1,141</b>	<b>52,932</b>	<b>10,901</b>	<b>54</b>	<b>10,955</b>
<b>Loans and advances to customers</b>	<b>595,781</b>	<b>149,153</b>	<b>744,934</b>	<b>268,247</b>	<b>13,407</b>	<b>281,654</b>
– Individuals	275,528	30,590	306,118	200,334	4,053	204,387
of which: mortgage loans	207,823	16,150	223,973	172,421	3,965	176,386
consumer loans	27,938	2,273	30,211	4,941	4	4,945
constructions savings scheme loans	36,345	5,053	41,398	22,971	85	23,056
– Corporates**	316,676	118,563	435,239	67,913	9,354	77,267
of which: top corporate clients	136,723	74,786	211,509	36,036	4,309	40,345
– Debt securities	3,193	x	3,193	0	x	0
– Other amounts due from customers	384	x	384	0	x	0
<b>Revaluation differences on portfolios hedge items</b>	<b>32</b>	<b>x</b>	<b>32</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Held-to-maturity investments</b>	<b>65,462</b>	<b>x</b>	<b>65,462</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Total</b>	<b>907,771</b>	<b>150,294</b>	<b>1,058,065</b>	<b>279,148</b>	<b>13,461</b>	<b>292,609</b>

\* Undrawn amounts, commitments, guarantees, etc.

\*\* This item also includes loans provided to individual entrepreneurs.

The maximum credit exposure is presented on a gross basis (i.e. without the impact of allowances).

### Classification of receivables

The Group classifies its receivables arising from financial activities into five categories in accordance with CNB Regulation No. 163/2014. The Standard and Watch categories represent non-default while Substandard, Doubtful and Loss represent default. The classification reflects both quantitative criteria (payment discipline, financial data) and qualitative criteria (e.g. in-depth client knowledge). The classification of individuals reflects also the default sharing principle for co-debtors and guarantors of defaulted receivables in accordance with the Basel III principles.

The structure of the credit portfolio according to the classification is regularly reported to the CNB and to investors.

When forbearance measures are granted, the forborne exposures are given default status (i.e. are classified as Substandard, Doubtful or Loss according to the CNB classification). The forbearance classification is discontinued after fulfilment of the following pre-defined conditions:

- I. After 12 months, reclassification of the forborne exposures to performing (i.e. classified as Standard or Watch) is possible based on an analysis of the debtor's financial condition;
- II. This is followed by a minimum 2-year probation period.

In addition, proper payment must be made throughout the probation period (i.e. the material days past due with materiality being set identically as for defaulted receivables), must not exceed 30 days. Otherwise the exposure is downgraded back to default status.

### Characteristics of receivables that are not classified

Pursuant to the regulation issued by the CNB, the Group does not classify other amounts due from customers. These amounts consist of non-credit receivables that principally originated from the payment system, fraudulent withdrawals, bank cheques, receivables associated with purchases of securities (on behalf of clients) that have not been settled, and receivables that arise from business arrangements that do not represent financial activities, specifically receivables arising from outstanding rental payments on non-residential premises, sale of real estate and prepayments made.

## Allowances for receivables

Depending on the client segment, materiality, risk profile and characteristics of the receivables, allowances are created either: (i) taking into account the present value of expected future cash flows while considering all available information, including the estimated value of collateral foreclosure and the expected duration of the recovery process; or (ii) according to models using historical delinquency statistics regularly updated based on the latest loss observations and new risk drivers reflecting the phase of the business cycle; or (iii) using models based on probabilities of default and loss given default so long as the impairment event does not occur and for impaired loans these are recorded individually or based on models.

*The following table breaks out impaired customer loans (Substandard, Doubtful and Loss) according to type of loss estimation:*

(CZKm)	31 Dec 2017		31 Dec 2016	
	Individually	Statistical model	Individually	Statistical model
Individuals	1,114	6,380	1,942	7,847
Corporates*	8,411	2,699	10,032	2,584
<b>Total</b>	<b>9,525</b>	<b>9,079</b>	<b>11,974</b>	<b>10,431</b>

\* This item also includes loans granted to individual entrepreneurs.

*As of 31 December 2017, the Group reported the following loans not past due and loans past due, not impaired:*

	Loans not past due	Loans past due, not impaired						
(CZKm)		1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	Total
Banks								
– Standard	227,083	0	0	0	0	0	0	227,083
– Watch	1,219	82	0	0	0	0	82	1,301
Total	228,302	82	0	0	0	0	82	228,384
Customers								
– Standard	570,528	4,932	160	17	3	0	5,112	575,640
– Watch	7,995	623	727	153	1	0	1,504	9,499
Total	578,523	5,555	887	170	4	0	6,616	585,139

*As of 31 December 2016, the Group reported the following loans not past due and loans past due, not impaired:*

	Loans not past due	Loans past due, not impaired						
(CZKm)		1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	Total
Banks								
– Standard	49,839	179	0	0	0	0	179	50,018
– Watch	1,773	0	0	0	0	0	0	1,773
Total	51,612	179	0	0	0	0	179	51,791
Customers								
– Standard	555,997	4,220	116	120	0	0	4,456	560,453
– Watch	7,959	746	506	135	0	0	1,387	9,346
Total	563,956	4,966	622	255	0	0	5,843	569,799

The amount of the collateral applied in respect of loans past due, not impaired was CZK 2,053 million (2016: CZK 2,610 million).

### **Loan collateral**

The Group uses collateralisation as one of its techniques for mitigating credit risk. The risk management related to collateralisation is performed by departments within the Risk Management Arm independently of the Group's business lines.

The Group has fully implemented within its internal system the rules for assessing collateral's eligibility according to CNB Regulation No. 163/2014. In compliance with the CNB validation the Group uses the Advanced Internal Ratings-Based (A-IRB) approach. For clients of the Slovak branch, the Group uses the Standardised (STD) approach for assessing collateral eligibility.

The recognised value of collateral is set based on the Group's internal rules for collateral valuation and discounting. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral sale, length of sale, the historical experience of the Group, as well as collateral eligibility according to the CNB regulation, bankruptcy/insolvency rules and other regulations. Specifically, for all real estate collateral, which is the most common type of collateral, the Group uses independent valuations performed or supervised by the Group's dedicated specialised internal department. Collateral values reflected in the calculation of capital requirements and other processes (regulatory exposure management, granting process, creation of provisions and reserves) involve the fulfilment of collateral eligibility according to CNB Regulation No. 163/2014.

The Group (except for the Slovak branch) uses on-line connection to the Land Register for reviewing and acquiring data on pledged real estates in granting mortgages or other loans secured by real estate and for regular monitoring of selected events that may put the Group's pledge right to real estate at risk.

### **Real estate collateral valuation**

Activities related to the valuation of real estates obtained as collaterals for corporate and retail loans are independent from the Group's business processes. The valuation process is managed and controlled by a specialised internal department that co-operates with various external valuation experts.

In 2017, together with the principal activity involving real estate valuation, the Group focused mainly upon ongoing monitoring of the real estate market with the aim to promptly identify any adverse development and to take appropriate measures as required. The Group monitors both the residential and commercial real estate markets. An integral component of that monitoring is the revaluation of selected real estates depending on the Basel III requirements. As a result of the statistical monitoring of market prices for residential real estates, adjustment is performed regularly.

### **Recovery of receivables from borrowers**

The Group responded progressively to the changing legal environment and its influence on the collection of receivables. Given the size of the portfolio in recovery, the Group continued improving the efficiency of the recovery process. These efforts also involved improving efficiency in using external recovery capacities. During 2017, the Group continued in regular sales of uncollateralised and collateralised retail receivables to selected qualified investors so that the maximum achievable recovery rate is obtained.

The Group was increasingly attentive to utilising the Insolvency Act in the process of collecting receivables from both retail and corporate clients. The Group plays an active role in the insolvency process, from the position of secured creditor, member of the creditors committee or representative of creditors, whether in bankruptcy proceedings or in reorganisations, both of which are used by the Group depending on the given debtor's circumstances and the attitudes of other creditors.

### **Credit risk hedging instruments**

The Group has not entered into any credit derivative transactions to hedge or reallocate its credit exposures.

### **Credit risk of financial derivatives**

The daily calculation of counterparty risk associated with financial derivatives is based on the Credit Value at Risk (CVaR) indicator. This indicator projects the potential adverse development of the market value of a derivative and the potential loss that the Group may incur if a counterparty fails to fulfil its obligations. The maximum potential exposure is calculated at the 99% probability level and depends on the current market value and type of derivative product, the time remaining until maturity of the derivative transaction, as well as the nominal value and volatility of the underlying assets.

As of 31 December 2017, the Group was exposed to credit exposure of CZK 113,370 million (2016: CZK 23,021 million) on financial derivative instruments and repo operations involving a central bank (expressed in CVaR). This amount represents the gross replacement cost at market rates as of 31 December 2017 for all outstanding agreements. The netting agreement and parameters of collateral agreement are taken into account where applicable.

The Group puts limits on exposures to counterparties from financial derivatives in order to avoid excessive credit exposures to each clients that could arise from movements in market prices. On a daily basis, the Group monitors compliance with limits. If these are exceeded, an appropriate alert is triggered and action is taken when relevant. In the event that the limit breach is triggered by the deliberate action of a dealer ("active limit breach"), such behaviour is penalised. The Board of Directors is informed about active limit breaches on a regular basis.

## **(B) Market risk**

### **Segmentation of the Group's financial operations**

For market risk management purposes, the Group's activities are internally separated into two books: the Market Book and the Structural Book. The Market Book consists of transactions initiated by investment banking activities and the treasury desk (interbank and individually priced deposits/loans, repos/reverse repos, securities classified as held for trading, derivatives originated by investment banking). The Structural Book consists principally of business transactions (lending, accepting deposits, amounts due to and from customers), hedging transactions relevant to the Structural Book, and other transactions not included in the Market Book.

### **Products generating market risk**

Products that are traded by the Group and generate market risk include interbank loans and deposits, currency transactions (spots, swaps, forwards), interest rate instruments (interest rate swaps, cross currency swaps, forward rate agreements, interest rate futures and futures on debt securities), government and corporate bonds, bills of exchange programmes and cash and carry exposure in emission allowances.

More complex derivatives (options, commodity derivatives, structured derivatives) which are being sold to clients, are immediately offset on the market by doing "back-to-back" trades in the interbank market mostly with Société Générale. This ensures that the Group is not exposed to market risks associated with these derivatives (e.g. volatility risk, correlation risk).

### **Market risk in the Market Book**

The Group has developed a system of market risk limits with the objective of limiting potential losses due to movements in market prices by limiting the size of the risk exposure.

Since 2016, in addition to measuring and limiting market risk at the level of the Market Book as whole, the Group measures and limits the market risks for the trading and treasury activities separately.

The Group monitors compliance with all limits on a daily basis, and if these are exceeded the Group takes corrective action to reduce the risk exposure. The Board of Directors is informed on a quarterly basis about developments in the exposure to market risk.

In order to measure the extent of market risk inherent in the activities of the Market Book, the Group uses the one-day historical 99% Value-at-Risk (hereafter only "VaR") concept. VaR is calculated using full revaluation of the position by means of historical market price scenarios. This method reflects correlations between various financial markets and underlying instruments on a non-parametric basis, inasmuch as it uses scenarios simulating one-day variations of relevant market parameters over a period of time limited to the past 260 business days. The resulting 99% VaR indicator captures the loss that would be incurred after eliminating the 1% of the most unfavourable occurrences. This estimate is calculated as the average of the second and the third largest potential losses out of the 260 considered scenarios.

The VaR for a one-day horizon with a confidence level of 99% was CZK -20 million as of 31 December 2017 (2016: CZK -16 million). The average VaR was CZK -16 million in 2017 (2016: CZK -16 million).

The accuracy of the VaR model is validated through a back-testing calculation, whereby actual trading results and hypothetical results (i.e. results excluding deals closed during the day) are compared with the VaR results. Actual results should not exceed VaR more frequently than 1% of days within a given period.

In addition, the Group performs stress tests on a daily basis which capture losses potentially generated by larger shocks. These stress events have a lower probability of occurrence than do VaR scenarios, and they measure potential losses relevant to the risk exposure in the Market Book. Several types of stress tests for foreign exchange, interest rate and CO<sub>2</sub> allowance cash and carry exposures are used. These are developed either based on actual crisis situations in the past (such as the Greek crisis in 2010) or from a hypothetical crisis that could negatively influence the performance of the Market Book.

Such additional specific metrics as sensitivities to market parameters or size of exposure are used to obtain a detailed picture of risks and strategies.

The Group complies with Société Générale Group's VaR and stress tests methodology and uses the Group's software for market risk management.

## Market risk in the Structural Book

The Group manages foreign exchange risk so as to minimise risk exposures. In order to achieve this, the foreign exchange position of the Structural Book is measured on a daily basis and subsequently hedged according to established rules. For the purpose of hedging foreign exchange positions within the Structural Book, the Group uses standard currency instruments in the interbank market, such as currency spots and forwards.

Interest rate risk within the Structural Book is monitored and measured using a static gap analysis, sensitivity of net present value to a parallel shift of the yield curve, and sensitivity of net interest income to a parallel shift of the yield curve.

The indicators are monitored separately for CZK, USD, EUR, and the sum of other foreign currencies.

The indicator of the Group's sensitivity to a change in market interest rates is measured based upon the assumption of an instantaneous, one-off and adverse parallel shift of the market yield curve by 1% p.a. It is determined as the present value of the costs of closing out the Group's open interest rate position after the adverse change of interest rates has occurred. As of 31 December 2017, the CZK interest rate risk sensitivity was CZK -47 million (2016: CZK -875 million), the EUR sensitivity was CZK -175 million (2016: CZK 206 million), the USD sensitivity was CZK -14 million (2016: CZK 18 million) and for other currencies it was CZK 2 million (2016: CZK -4 million) for the hypothetical assumption of a 1% change in market interest rates. The Group is limited by this indicator and the level of the limit is determined to be approximately 2% of capital.

In order to hedge against interest rate risk within the Structural Book, the Group uses both standard derivative instruments available in the interbank market (such as forward rate agreements and interest rate swaps) and appropriate investments into securities or a favourable selection of interest rate parameters for other assets and liabilities.

## (C) Financial derivatives

The Group operates a system of market risk and counterparty limits designed to restrict disproportionate exposures due to movements in market prices and counterparty concentrations. The Group also monitors adherence to all limits on a daily basis. It follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

The following tables set out nominal and fair values of financial derivative instruments categorised as held for trading and hedging.

*Financial derivative instruments designated as held for trading are as follow:*

(CZKm)	31 Dec 2017 Nominal value		31 Dec 2016 Nominal value		31 Dec 2017 Fair value		31 Dec 2016 Fair value	
	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
<b>Interest rate instruments</b>								
Interest rate swaps	817,281	817,281	647,406	647,406	7,293	8,108	8,954	9,341
Interest rate forwards and futures*	84,251	84,251	2,986	2,986	1	9	1	0
Interest rate options	27,209	27,209	39,957	39,957	50	50	58	58
<b>Total interest rate instruments</b>	<b>928,741</b>	<b>928,741</b>	<b>690,349</b>	<b>690,349</b>	<b>7,344</b>	<b>8,167</b>	<b>9,013</b>	<b>9,399</b>
<b>Foreign currency instruments</b>								
Currency swaps	323,477	322,592	203,110	203,209	2,390	1,535	1,966	2,017
Cross currency swaps	150,380	150,573	135,311	135,313	3,894	3,516	4,438	3,986
Currency forwards	91,657	93,673	52,186	51,845	511	2,161	377	295
Purchased options	61,065	61,322	66,709	66,895	1,283	0	1,276	0
Sold options	61,322	61,065	66,895	66,709	0	1,283	0	1,276
<b>Total currency instruments</b>	<b>687,901</b>	<b>689,225</b>	<b>524,211</b>	<b>523,971</b>	<b>8,078</b>	<b>8,495</b>	<b>8,057</b>	<b>7,574</b>
<b>Other instruments</b>								
Forwards on emission allowances	3,646	3,836	4,194	4,052	217	407	400	260
Commodity forwards	3,661	3,661	4,162	4,162	109	106	148	145
Commodity swaps	10,784	10,784	9,079	9,079	464	456	622	605
Purchased commodity options	36	36	424	424	0	0	24	0
Sold commodity options	36	36	424	351	0	0	0	24
<b>Total other instruments</b>	<b>18,163</b>	<b>18,353</b>	<b>18,283</b>	<b>18,068</b>	<b>790</b>	<b>969</b>	<b>1,194</b>	<b>1,034</b>
<b>Total</b>	<b>1,634,805</b>	<b>1,636,319</b>	<b>1,232,843</b>	<b>1,232,388</b>	<b>16,212</b>	<b>17,631</b>	<b>18,264</b>	<b>18,007</b>

\* Fair values include only forwards. Regarding futures, the Group places funds on a margin account that is used on a daily basis to settle fair value changes. Receivables arising from these margin accounts are reported within other assets.



*Financial derivative instruments designated as held for trading are shown below at nominal values by remaining contractual maturity as of 31 December 2017:*

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
<b>Interest rate instruments</b>				
Interest rate swaps	103,801	464,094	249,386	817,281
Interest rate forwards and futures*	73,869	10,382	0	84,251
Interest rate options	2,341	23,071	1,797	27,209
<b>Total interest rate instruments</b>	<b>180,011</b>	<b>497,547</b>	<b>251,183</b>	<b>928,741</b>
<b>Foreign currency instruments</b>				
Currency swaps	311,991	11,486	0	323,477
Cross currency swaps	26,422	76,943	47,015	150,380
Currency forwards	52,092	37,245	2,320	91,657
Purchased options	36,601	24,464	0	61,065
Sold options	36,673	24,649	0	61,322
<b>Total currency instruments</b>	<b>463,779</b>	<b>174,787</b>	<b>49,335</b>	<b>687,901</b>
<b>Other instruments</b>				
Forwards on emission allowances	2,929	717	0	3,646
Commodity forwards	3,661	0	0	3,661
Commodity swaps	9,219	1,565	0	10,784
Purchased commodity options	36	0	0	36
Sold commodity options	36	0	0	36
<b>Total other instruments</b>	<b>15,881</b>	<b>2,282</b>	<b>0</b>	<b>18,163</b>
<b>Total</b>	<b>659,671</b>	<b>674,616</b>	<b>300,518</b>	<b>1,634,805</b>

\* The remaining contractual maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off-balance sheet exposures are reversed.

*Financial derivative instruments designated as held for trading are shown below at nominal values by remaining contractual maturity as of 31 December 2016:*

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
<b>Interest rate instruments</b>				
Interest rate swaps	96,165	365,099	186,142	647,406
Interest rate forwards and futures*	2,986	0	0	2,986
Interest rate options	946	37,082	1,929	39,957
<b>Total interest rate instruments</b>	<b>100,097</b>	<b>402,181</b>	<b>188,071</b>	<b>690,349</b>
<b>Foreign currency instruments</b>				
Currency swaps	200,604	2,506	0	203,110
Cross currency swaps	18,271	65,241	51,799	135,311
Currency forwards	40,265	11,921	0	52,186
Purchased options	38,442	28,267	0	66,709
Sold options	38,538	28,357	0	66,895
<b>Total currency instruments</b>	<b>336,120</b>	<b>136,292</b>	<b>51,799</b>	<b>524,211</b>
<b>Other instruments</b>				
Forwards on emission allowances	2,281	1,913	0	4,194
Commodity forwards	4,162	0	0	4,162
Commodity swaps	7,059	2,020	0	9,079
Purchased commodity options	402	22	0	424
Sold commodity options	402	22	0	424
<b>Total other instruments</b>	<b>14,306</b>	<b>3,977</b>	<b>0</b>	<b>18,283</b>
<b>Total</b>	<b>450,523</b>	<b>542,450</b>	<b>239,870</b>	<b>1,232,843</b>

\* The remaining contractual maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off-balance sheet exposures are reversed.

Financial derivative instruments designated as hedging are as follow:

(CZKm)	31 Dec 2017 Nominal value		31 Dec 2016 Nominal value		31 Dec 2017 Fair value		31 Dec 2016 Fair value	
	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Cross currency swaps for cash flows hedging	54,079	51,677	42,722	43,731	2,366	111	354	946
Forwards on stocks for cash flow hedging	52	52	49	49	2	0	1	1
Interest rate swaps for cash flow hedging	0	0	619,884	619,885	0	0	21,099	6,031
Interest rate swaps for fair value hedging	697,928	697,928	24,116	24,116	10,697	10,078	166	2,395
Interest rate swaps for portfolio fair value hedging	29,300	29,300	19,350	19,350	343	140	711	55
<b>Total</b>	<b>781,359</b>	<b>778,957</b>	<b>706,121</b>	<b>707,131</b>	<b>13,408</b>	<b>10,329</b>	<b>22,331</b>	<b>9,428</b>

Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2017:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Cross currency swaps for cash flow hedging	9,348	31,392	13,339	54,079
Forwards on stocks for cash flow hedging	20	32	0	52
Interest rate swaps for cash flow hedging	0	0	0	0
Interest rate swaps for fair value hedging	112,224	325,255	260,449	697,928
Interest rate swaps for portfolio fair value hedging	900	21,850	6,550	29,300
<b>Total</b>	<b>122,492</b>	<b>378,529</b>	<b>280,338</b>	<b>781,359</b>

Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2016:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Cross currency swaps for cash flow hedging	8,235	33,254	1,233	42,722
Forwards on stocks for cash flow hedging	19	30	0	49
Interest rate swaps for cash flow hedging	104,258	297,424	218,202	619,884
Interest rate swaps for fair value hedging	0	6,289	17,827	24,116
Interest rate swaps for portfolio fair value hedging	950	10,000	8,400	19,350
<b>Total</b>	<b>113,462</b>	<b>346,997</b>	<b>245,662</b>	<b>706,121</b>

Shown below are the undiscounted cash flows from derivatives designated for cash flow hedging according to the periods within which they are expected to affect profit or loss:

(CZKm)	31 Dec 2017			31 Dec 2016		
	Up to 1 year	1 to 5 years	Over 5 years	Up to 1 year	1 to 5 years	Over 5 years
Floating cash flows from cash flow hedging derivatives	35	68	17	(284)	(1,440)	(1,221)

The Group treats as hedges only those contracts for which it is able to demonstrate that all criteria set out in IAS 39 for recognising the transactions as hedges have been met.

In November 2017, the Group decided to change the hedging relationships of the interest rate swaps from the cash flow hedges (CFH) portfolio to the fair value hedges (FVH) portfolio for interest rate risk in order to unify and harmonise hedging strategy within Société Générale Group. At the date of reclassification, the associated gains that were recognised for the CFH portfolio in other comprehensive income as effective hedge were insignificant.

*During 2017, the Group recorded the following hedges:*

1. Interest rate risk hedging:
  - a. The fair values of long-term loans provided and of investments into long-term government securities classified into the 'Available-for-sale financial assets' portfolio and investments into long-term securities classified into the 'Loans and advances to customers' portfolio are hedged by interest rate swaps and cross currency swaps, respectively;
  - b. The fair values of issued long-term mortgage bonds classified into the 'Securities issued' portfolio are hedged by interest rate swaps;
  - c. The fair values of a portfolio of current and savings accounts from clients are hedged by a portfolio of interest rate swaps;
  - d. The fair values of fixed rate deposits, loans taken or repos are hedged by interest rate swaps;
  - e. Future cash flows from a portfolio of current assets traded on the interbank market and from loans to clients are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Group's Statement of Income on an ongoing basis);
  - f. Future cash flows from a portfolio of short-term liabilities traded on the interbank market and liabilities to clients are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Group's Statement of Income on an ongoing basis).
2. Foreign exchange risk hedging:
  - a. In selected material cases, the Group hedges the future cash flows of firm commitments arising from the Group's contractual obligations (e.g. contractual payments to third parties in a foreign currency) or receivables of the Group (e.g. dividends). The hedging instrument consists of foreign currency assets (e.g. short-term loans on the interbank market) or foreign currency liabilities (e.g. short-term client liabilities), respectively;
  - b. The Group hedges the fair value of Visa Inc. preferred shares. Hedging instruments are foreign currency liabilities (short-term client liabilities).
3. Share price risk hedging:
  - a. A portion of the bonus of selected Group employees is paid in cash equivalents of the Komerční banka, a.s. share price. The Group hedges the risk of change in the Komerční banka, a.s. share price. Hedging instruments are forwards on stocks.
4. Hedging of an investment in foreign subsidiaries:
  - a. The foreign exchange risk associated with investments in subsidiaries is hedged by selected foreign currency liabilities (e.g. short-term client liabilities).

The Group does not report any instance of hedge accounting being applied to a highly probable forecasted transaction that is no longer anticipated to be effected.

Further information on hedges is provided in Notes 3, 5 and 7 to these Consolidated Financial Statements.

## **(D) Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent that instrument is exposed to interest rate risk. Market developments have led to a situation where interest rates are negative in certain currencies. This fact does not change the essence of interest rate risk measurement and management because the principle of recognising changes in interest rates over time remains unchanged just as the concept of hedging against interest rate risk by matching volumes with changing values within the given period remains valid. Due to legal and technical limitations, methods to prevent negative rates from being applied at the client's level can be applied with the objective of maintaining accordance between a transaction's contractual and economic natures. With respect to ongoing market practice, client deposits are seeing the introduction of deposit fees, which constitute a specific response to the existence of negative market interest rates and which also comply with the requirements given by limitations ensuing from the existing legal framework.

The Group uses internal models for managing interest rate risk. The objective of these models is to describe the expected economic behaviour of the Group's clients when market interest rates fluctuate. It is the policy of the Group's management to manage the exposure to fluctuations in net interest income arising from changes in interest rates through a gap analysis of assets and liabilities in individual groups. Further information about interest rate risk management is provided in Section (B) of this Note.

The table below provides information on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have a contractual maturity or a repricing date were grouped into the 'Undefined' category. The table includes a breakout of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
<b>Assets</b>						
Cash and current balances with central banks	32,663	0	0	0	0	<b>32,663</b>
Financial assets at fair value through profit or loss	1,633	0	0	0	17,208	<b>18,841</b>
Positive fair values of hedging financial derivatives	0	0	47	0	13,361	<b>13,408</b>
Available-for-sale financial assets	1,654	7,800	6,237	13,780	241	<b>29,712</b>
Assets held for sale	0	0	0	0	319	<b>319</b>
Amounts due from banks	218,501	3,654	4,690	911	618	<b>228,374</b>
Loans and advances to customers	224,929	74,133	241,801	41,570	15,669	<b>598,102</b>
Revaluation differences on portfolios hedge items	0	0	0	0	(251)	<b>(251)</b>
Held-to-maturity investments	0	3,924	28,934	27,057	0	<b>59,915</b>
Current tax assets	0	2	0	0	40	<b>42</b>
Deferred tax assets	0	0	0	0	70	<b>70</b>
Prepayments, accrued income and other assets	0	665	0	0	5,158	<b>5,823</b>
Investments in subsidiaries and associates	0	0	0	0	1,181	<b>1,181</b>
Intangible assets	0	0	0	0	4,684	<b>4,684</b>
Tangible assets	0	0	0	0	7,404	<b>7,404</b>
Goodwill	0	0	0	0	3,752	<b>3,752</b>
<b>Total assets</b>	<b>479,380</b>	<b>90,178</b>	<b>281,709</b>	<b>83,318</b>	<b>69,454</b>	<b>1,004,039</b>
<b>Liabilities</b>						
Amounts due to central banks	1	0	0	0	0	<b>1</b>
Financial liabilities at fair value through profit or loss	1,673	0	0	0	17,631	<b>19,304</b>
Negative fair values of hedging financial derivatives	0	0	0	0	10,329	<b>10,329</b>
Amounts due to banks	61,531	7,227	1,916	0	13,376	<b>84,050</b>
Amounts due to customers	50,558	18,560	24,743	4,857	663,325*	<b>762,043</b>
Revaluation differences on portfolios hedge items	0	0	0	0	(1,468)	<b>(1,468)</b>
Securities issued	3,659	173	1,000	0	0	<b>4,832</b>
Current tax liabilities	0	0	0	0	263	<b>263</b>
Deferred tax liabilities	0	12	0	0	987	<b>999</b>
Accruals and other liabilities	81	0	0	0	18,788	<b>18,869</b>
Provisions	0	0	0	0	1,911	<b>1,911</b>
Subordinated debt	2,560	0	0	0	0	<b>2,560</b>
<b>Total liabilities</b>	<b>120,063</b>	<b>25,972</b>	<b>27,659</b>	<b>4,857</b>	<b>725,142</b>	<b>903,693</b>
<b>Statement of Financial Position interest rate gap as of 31 December 2017</b>	<b>359,317</b>	<b>64,206</b>	<b>254,050</b>	<b>78,461</b>	<b>(655,688)</b>	<b>100,346</b>
Nominal value of derivatives**	699,909	327,507	452,278	380,734	0	<b>1,860,428</b>
<b>Total off-balance sheet assets</b>	<b>699,909</b>	<b>327,507</b>	<b>452,278</b>	<b>380,734</b>	<b>0</b>	<b>1,860,428</b>
Nominal value of derivatives**	836,867	325,260	482,988	213,104	0	<b>1,858,219</b>
Undrawn portion of loans***	(7,684)	(9,064)	11,233	5,515	0	<b>0</b>
Undrawn portion of revolving loans***	(680)	680	0	0	0	<b>0</b>
<b>Total off-balance sheet liabilities</b>	<b>828,503</b>	<b>316,876</b>	<b>494,221</b>	<b>218,619</b>	<b>0</b>	<b>1,858,219</b>
<b>Net off-balance sheet interest rate gap as of 31 December 2017</b>	<b>(128,594)</b>	<b>10,631</b>	<b>(41,943)</b>	<b>162,115</b>	<b>0</b>	<b>2,209</b>
<b>Cumulative interest rate gap as of 31 December 2017</b>	<b>230,723</b>	<b>305,560</b>	<b>517,667</b>	<b>758,243</b>	<b>102,556</b>	<b>X</b>

\* This item principally includes client deposits where the Group has the option to reset interest rates and hence they are not sensitive to interest rate changes.

\*\* Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.

\*\*\* Undrawn loans and revolving loans are reported on a net basis, that is, the Group reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan inasmuch as the interest rate has not been determined for such commitments.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
<b>Assets</b>						
Cash and current balances with central banks	112,241	0	0	0	0	112,241
Financial assets at fair value through profit or loss	11,445	0	0	0	18,264	29,709
Positive fair values of hedging financial derivatives	0	0	0	0	22,331	22,331
Available-for-sale financial assets	304	11,034	10,073	18,009	0	39,420
Assets held for sale	0	0	0	0	906	906
Amounts due from banks	38,776	7,872	2,411	2,003	709	51,771
Loans and advances to customers	236,283	72,161	217,356	42,516	11,882	580,198
Revaluation differences on portfolios hedge items	0	0	0	0	32	32
Held-to-maturity investments	0	3,612	29,023	32,827	0	65,462
Current tax assets	0	16	0	0	70	86
Deferred tax assets	0	0	0	0	78	78
Prepayments, accrued income and other assets	0	668	0	0	4,251	4,919
Investments in subsidiaries and associates	0	0	0	0	1,280	1,280
Intangible assets	0	0	0	0	3,886	3,886
Tangible assets	0	0	0	0	6,666	6,666
Goodwill	0	0	0	0	3,752	3,752
<b>Total assets</b>	<b>399,049</b>	<b>95,363</b>	<b>258,863</b>	<b>95,355</b>	<b>74,107</b>	<b>922,737</b>
<b>Liabilities</b>						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities at fair value through profit or loss	160	0	0	0	18,007	18,167
Negative fair values of hedging financial derivatives	0	0	0	0	9,428	9,428
Amounts due to banks	36,067	8,178	0	0	9,879	54,124
Amounts due to customers	52,073	22,049	22,053	4,899	598,303*	699,377
Revaluation differences on portfolios hedge items	0	0	0	0	762	762
Securities issued	1,968	8,929	1,745	781	0	13,423
Current tax liabilities	0	0	0	0	360	360
Deferred tax liabilities	0	0	30	0	3,800	3,830
Accruals and other liabilities	227	0	0	0	15,923	16,150
Provisions	0	0	0	0	1,714	1,714
Subordinated debt	0	0	0	0	0	0
<b>Total liabilities</b>	<b>90,496</b>	<b>39,156</b>	<b>23,828</b>	<b>5,680</b>	<b>658,176</b>	<b>817,336</b>
<b>Statement of Financial Position interest rate gap as of 31 December 2016</b>	<b>308,553</b>	<b>56,207</b>	<b>235,035</b>	<b>89,675</b>	<b>(584,069)</b>	<b>105,401</b>
Nominal value of derivatives**	570,590	263,724	372,420	324,998	0	1,531,732
<b>Total off-balance sheet assets</b>	<b>570,590</b>	<b>263,724</b>	<b>372,420</b>	<b>324,998</b>	<b>0</b>	<b>1,531,732</b>
Nominal value of derivatives**	690,976	257,911	402,152	181,705	0	1,532,744
Undrawn portion of loans***	(3,457)	(9,186)	5,867	6,776	0	0
Undrawn portion of revolving loans***	(578)	578	0	0	0	0
<b>Total off-balance sheet liabilities</b>	<b>686,941</b>	<b>249,303</b>	<b>408,019</b>	<b>188,481</b>	<b>0</b>	<b>1,532,744</b>
<b>Net off-balance sheet interest rate gap as of 31 December 2016</b>	<b>(116,351)</b>	<b>14,421</b>	<b>(35,599)</b>	<b>136,517</b>	<b>0</b>	<b>(1,012)</b>
<b>Cumulative interest rate gap as of 31 December 2016</b>	<b>192,202</b>	<b>262,830</b>	<b>462,266</b>	<b>688,458</b>	<b>104,389</b>	<b>X</b>

\* This item principally includes client deposits where the Group has the option to reset interest rates and hence they are not sensitive to interest rate changes.

\*\* Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.

\*\*\* Undrawn loans and revolving loans are reported on a net basis, that is, the Group reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan inasmuch as the interest rate has not been determined for such commitments.

Average interest rates as of 31 December 2017 and 2016 were as follow:

	31 Dec 2017			31 Dec 2016		
	CZK	USD	EUR	CZK	USD	EUR
<b>Assets</b>						
Cash and current balances with central banks	0.31%	x	x	0.05%	x	x
Treasury bills	x	x	x	x	x	x
Amounts due from banks	0.54%	1.94%	0.07%	0.08%	1.27%	0.14%
Loans and advances to customers	2.31%	2.99%	1.65%	2.37%	2.80%	1.66%
Interest-earning securities	1.65%	x	1.57%	1.63%	x	1.34%
<b>Total assets</b>	<b>1.34%</b>	<b>1.46%</b>	<b>1.10%</b>	<b>1.33%</b>	<b>1.36%</b>	<b>1.14%</b>
<b>Total interest-earning assets</b>	<b>1.65%</b>	<b>2.28%</b>	<b>1.13%</b>	<b>1.76%</b>	<b>1.85%</b>	<b>1.18%</b>
<b>Liabilities</b>						
Amounts due to central banks and banks	0.08%	0.88%	0.27%	0.07%	0.73%	0.40%
Amounts due to customers	0.13%	0.34%	0.02%	0.16%	0.03%	0.02%
Debt securities	3.07%	1.03%	2.12%	3.06%	0.97%	0.16%
Subordinated debt	x	x	0.93%	x	x	x
<b>Total liabilities</b>	<b>0.15%</b>	<b>0.33%</b>	<b>0.13%</b>	<b>0.16%</b>	<b>0.08%</b>	<b>0.16%</b>
<b>Total interest-bearing liabilities</b>	<b>0.16%</b>	<b>0.35%</b>	<b>0.14%</b>	<b>0.17%</b>	<b>0.09%</b>	<b>0.17%</b>
<b>Off-balance sheet assets</b>						
Nominal value of derivatives (interest rate swaps, options, etc.)	1.03%	2.91%	0.59%	0.95%	2.64%	0.71%
Undrawn portion of loans	1.86%	x	1.22%	1.55%	x	1.75%
Undrawn portion of revolving loans	5.01%	2.50%	0.23%	4.90%	1.29%	0.29%
<b>Total off-balance sheet assets</b>	<b>1.16%</b>	<b>2.89%</b>	<b>0.58%</b>	<b>1.18%</b>	<b>2.62%</b>	<b>0.71%</b>
<b>Off-balance sheet liabilities</b>						
Nominal value of derivatives (interest rate swaps, options, etc.)	0.87%	2.67%	0.48%	0.71%	2.32%	0.63%
Undrawn portion of loans	1.86%	x	1.22%	1.55%	x	1.75%
Undrawn portion of revolving loans	5.01%	2.50%	0.23%	4.90%	1.29%	0.29%
<b>Total off-balance sheet liabilities</b>	<b>1.01%</b>	<b>2.66%</b>	<b>0.48%</b>	<b>0.96%</b>	<b>2.31%</b>	<b>0.63%</b>

Note: The above table sets out the average interest rates for December 2017 and 2016 calculated as a weighted average for each asset and liability category.

The 2W repo rate announced by the CNB increased during 2017 from 0.05% to 0.50%. Czech crown money market rates (PRIBOR) increased by 0.44–0.53% (1–12M). Interest rate swaps increased by 0.99–1.17% (2–10Y).

Euro money market rates decreased during 2017 by 0.00–0.10% (1–12M), and interest rate swaps increased from 0.01% (2Y) to 0.26% (6–7Y).

Dollar money market rates increased during 2017 by 0.42–0.80% (1–12M), and interest rate swaps increased from 0.61% (2Y) to 0.04% (10Y).



Following is a breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

(CZKmn)	31 Dec 2017				31 Dec 2016			
	Fixed interest rate	Floating interest rate	No interest	Total	Fixed interest rate	Floating interest rate	No interest	Total
<b>Assets</b>								
Cash and current balances with central banks	5,000	16,551	11,112	<b>32,663</b>	0	101,539	10,702	<b>112,241</b>
Financial assets at fair value through profit or loss	964	669	17,208	<b>18,841</b>	7,466	2,140	20,103	<b>29,709</b>
Positive fair values of hedging financial derivatives	47	0	13,361	<b>13,408</b>	5	0	22,326	<b>22,331</b>
Available-for-sale financial assets	22,828	6,643	241	<b>29,712</b>	25,577	13,661	182	<b>39,420</b>
Amounts due from banks	6,013	222,163	198	<b>228,374</b>	9,642	41,877	252	<b>51,771</b>
Loans and advances to customers	391,541	201,613	4,948	<b>598,102</b>	364,762	210,617	4,819	<b>580,198</b>
Revaluation differences on portfolios hedge items	0	0	(251)	<b>(251)</b>	0	0	32	<b>32</b>
Held-to-maturity investments	59,915	0	0	<b>59,915</b>	65,462	0	0	<b>65,462</b>
<b>Liabilities</b>								
Amounts due to central banks	1	0	0	<b>1</b>	1	0	0	<b>1</b>
Financial liabilities at fair value through profit or loss	0	0	19,304	<b>19,304</b>	0	0	18,167	<b>18,167</b>
Negative fair values of hedging financial derivatives	0	0	10,329	<b>10,329</b>	1	0	9,427	<b>9,428</b>
Amounts due to banks	38,859	44,933	258	<b>84,050</b>	25,931	27,158	1,035	<b>54,124</b>
Amounts due to customers	60,505	695,978	5,560	<b>762,043</b>	61,749	632,179*	5,449	<b>699,377</b>
Revaluation differences on portfolios hedge items	0	0	(1,468)	<b>(1,468)</b>	0	0	762	<b>762</b>
Securities issued	3,080	1,752	0	<b>4,832</b>	3,532	9,891	0	<b>13,423</b>
Subordinated debt	0	2,560	0	<b>2,560</b>	0	0	0	<b>0</b>

Note: Individual assets and liabilities are split into the categories of 'Fixed interest rate', 'Floating interest rate', and 'No interest' according to contractual parameters defining the interest rate structure. For this purpose, a fixed interest rate is defined as a rate with a repricing period exceeding one year. Products having no parameters defining their interest rate structure are included in the 'No interest' category.

\* This item principally includes client deposits where the Group has the option to reset interest rates and hence they are not sensitive to interest rate changes.

## (E) Liquidity risk

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments.

Liquidity risk management is based upon the liquidity risk management system approved by the Bank's Board of Directors. Liquidity is monitored on a bank-wide level, with the Market Book also having a standalone limit. The Group has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Group has defined a set of indicators for which binding limits are established.

The Group is exposed to daily calls on its available cash resources from derivatives, overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Group's experiences show that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities (mainly reverse repo transactions with CNB) that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk of the Group is managed as stipulated above (and in particular not on the basis of undiscounted cash flows).

The table below provides a breakdown of assets, liabilities and equity into relevant maturity groupings based on the remaining period from the financial statements date to the contractual maturity date. The table includes a breakout of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(CZKmn)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
<b>Assets</b>							
Cash and current balances with central banks	14,747	0	0	0	0	17,916	32,663
Financial assets at fair value through profit or loss	0	17	385	157	544	17,738	18,841
Positive fair values of hedging financial derivatives	0	0	0	47	0	13,361	13,408
Available-for-sale financial assets	0	15	4,145	6,331	18,081	1,140	29,712
Assets held for sale	0	0	298	0	0	21	319
Amounts due from banks	109,473	105,765	1,785	5,553	278	5,520	228,374
Loans and advances to customers, net	5,812	58,992	59,281	182,803	272,395	18,819	598,102
Revaluation differences on portfolios hedge items	0	0	0	0	0	(251)	(251)
Held-to-maturity investments	0	69	4,793	28,827	26,226	0	59,915
Current tax assets	0	0	36	2	0	4	42
Deferred tax assets	0	0	0	2	0	68	70
Prepayments, accrued income and other assets	804	461	664	0	0	3,894	5,823
Investments in subsidiaries and associates	0	0	0	0	0	1,181	1,181
Intangible assets	0	0	0	0	0	4,684	4,684
Tangible assets	0	0	0	0	0	7,404	7,404
Goodwill	0	0	0	0	0	3,752	3,752
<b>Total assets</b>	<b>130,836</b>	<b>165,319</b>	<b>71,387</b>	<b>223,722</b>	<b>317,524</b>	<b>95,251</b>	<b>1,004,039</b>
<b>Liabilities</b>							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss	1,673	0	0	0	0	17,631	19,304
Negative fair values of hedging financial derivatives	0	0	0	0	0	10,329	10,329
Amounts due to banks	33,882	9,690	4,934	29,063	6,481	0	84,050
Amounts due to customers	678,136	37,676	15,169	25,860	5,103	99	762,043
Revaluation differences on portfolios hedge items	0	0	0	0	0	(1,468)	(1,468)
Securities issued	467	3,002	174	1,005	0	184	4,832
Current tax liabilities	0	254	8	0	0	1	263
Deferred tax liabilities	0	0	0	12	0	987	999
Accruals and other liabilities	16,267	583	0	0	0	2,019	18,869
Provisions	8	91	784	488	1	539	1,911
Subordinated debt	0	0	0	0	2,560	0	2,560
Equity	0	0	0	0	0	100,346	100,346
<b>Total liabilities</b>	<b>730,434</b>	<b>51,296</b>	<b>21,069</b>	<b>56,428</b>	<b>14,145</b>	<b>130,667</b>	<b>1,004,039</b>
<b>Statement of Financial Position liquidity gap as of 31 December 2017</b>							
Off-balance sheet assets*	51,890	228,523	195,743	206,177	62,675	0	745,008
Off-balance sheet liabilities*	65,744	250,160	247,906	254,210	65,170	16,659	899,849
<b>Net off-balance sheet liquidity gap as of 31 December 2017</b>	<b>(13,854)</b>	<b>(21,637)</b>	<b>(52,163)</b>	<b>(48,033)</b>	<b>(2,495)</b>	<b>(16,659)</b>	<b>(154,841)</b>

\* Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term and option contracts and payables under guarantees, letters of credit and committed facilities.

(CZKmn)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
<b>Assets</b>							
Cash and current balances with central banks	17,503	0	0	0	0	94,738	112,241
Financial assets at fair value through profit or loss	700	593	1,389	4,424	1,727	20,876	29,709
Positive fair values of hedging financial derivatives	0	0	0	0	0	22,331	22,331
Available-for-sale financial assets	0	20	6,137	9,993	20,696	2,574	39,420
Assets held for sale	0	0	878	0	0	28	906
Amounts due from banks	9,202	25,214	3,399	7,639	325	5,992	51,771
Loans and advances to customers	3,643	62,322	55,317	175,441	266,046	17,429	580,198
Revaluation differences on portfolios hedge items	0	0	0	0	0	32	32
Held-to-maturity investments	0	353	4,281	28,499	32,329	0	65,462
Current tax assets	0	0	25	0	0	61	86
Deferred tax assets	0	0	6	0	0	72	78
Prepayments, accrued income and other assets	120	484	663	0	0	3,652	4,919
Investments in subsidiaries and associates	0	0	0	0	0	1,280	1,280
Intangible assets	0	0	0	0	0	3,886	3,886
Tangible assets	0	0	0	0	0	6,666	6,666
Goodwill	0	0	0	0	0	3,752	3,752
<b>Total assets</b>	<b>31,168</b>	<b>88,986</b>	<b>72,095</b>	<b>225,996</b>	<b>321,123</b>	<b>183,369</b>	<b>922,737</b>
<b>Liabilities</b>							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss	160	0	0	0	0	18,007	18,167
Negative fair values of hedging financial derivatives	0	0	0	0	0	9,428	9,428
Amounts due to banks	12,784	6,865	4,925	19,754	9,796	0	54,124
Amounts due to customers	608,288	41,300	21,612	23,251	4,858	68	699,377
Revaluation differences on portfolios hedge items	0	0	0	0	0	762	762
Securities issued	279	1,506	629	1,741	9,268	0	13,423
Current tax liabilities	0	358	0	0	0	2	360
Deferred tax liabilities	0	0	1	29	0	3,800	3,830
Accruals and other liabilities	13,730	749	0	0	0	1,671	16,150
Provisions	11	171	762	268	4	498	1,714
Equity	0	0	0	0	0	105,401	105,401
<b>Total liabilities</b>	<b>635,253</b>	<b>50,949</b>	<b>27,929</b>	<b>45,043</b>	<b>23,926</b>	<b>139,637</b>	<b>922,737</b>
<b>Statement of Financial Position liquidity gap as of 31 December 2016</b>							
	<b>(604,085)</b>	<b>38,037</b>	<b>44,166</b>	<b>180,953</b>	<b>297,197</b>	<b>43,732</b>	<b>0</b>
Off-balance sheet assets*	50,043	178,351	131,043	169,546	53,033	0	582,016
Off-balance sheet liabilities*	58,444	199,204	186,553	214,975	57,647	16,704	733,527
<b>Net off-balance sheet liquidity gap as of 31 December 2016</b>	<b>(8,401)</b>	<b>(20,853)</b>	<b>(55,510)</b>	<b>(45,429)</b>	<b>(4,614)</b>	<b>(16,704)</b>	<b>(151,511)</b>

\* Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term and option contracts and payables under guarantees, letters of credit and committed facilities.

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Group based on the undiscounted cash flows as of 31 December 2017.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
<b>Liabilities</b>							
Amounts due to central banks	1	0	0	0	0	0	<b>1</b>
Financial liabilities at fair value through profit or loss (except derivatives)	1,673	0	0	0	0	0	<b>1,673</b>
Amounts due to banks	33,984	13,929	7,949	34,383	6,873	0	<b>97,118</b>
Amounts due to customers	678,227	37,735	15,311	26,920	5,540	198	<b>763,931</b>
Securities issued	467	3,012	183	1,029	0	184	<b>4,875</b>
Current tax liabilities	0	254	8	0	0	1	<b>263</b>
Deferred tax liabilities	0	0	0	12	0	988	<b>1000</b>
Accruals and other liabilities	16,267	603	0	0	0	2,587	<b>19,457</b>
Provisions	8	91	785	488	1	544	<b>1,917</b>
Subordinated debt	0	0	0	0	2,560	0	<b>2,560</b>
<b>Total non-derivative financial liabilities</b>	<b>730,627</b>	<b>55,624</b>	<b>24,236</b>	<b>62,832</b>	<b>14,974</b>	<b>4,502</b>	<b>892,795</b>
Other loans commitment granted	11,642	14,269	33,072	28,408	459	16,510	<b>104,360</b>
Guarantee commitments granted	1,882	7,826	18,673	20,108	2,591	149	<b>51,229</b>
<b>Total contingent liabilities</b>	<b>13,524</b>	<b>22,095</b>	<b>51,745</b>	<b>48,516</b>	<b>3,050</b>	<b>16,659</b>	<b>155,589</b>

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Group based on the undiscounted cash flows as of 31 December 2016.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
<b>Liabilities</b>							
Amounts due to central banks	1	0	0	0	0	0	<b>1</b>
Financial liabilities at fair value through profit or loss (except derivatives)	160	0	0	0	0	0	<b>160</b>
Amounts due to banks	14,142	10,025	7,382	24,072	10,261	0	<b>65,882</b>
Amounts due to customers	608,292	41,417	21,709	24,272	5,213	136	<b>701,039</b>
Securities issued	279	1,518	1,155	1,850	9,295	0	<b>14,097</b>
Current tax liabilities	0	357	1	0	0	2	<b>360</b>
Deferred tax liabilities	0	0	1	29	0	3,803	<b>3,833</b>
Accruals and other liabilities	13,729	788	0	0	0	2,141	<b>16,658</b>
Provisions	11	171	763	268	4	501	<b>1,718</b>
<b>Total non-derivative financial liabilities</b>	<b>636,614</b>	<b>54,276</b>	<b>31,011</b>	<b>50,491</b>	<b>24,773</b>	<b>6,583</b>	<b>803,748</b>
Other loans commitment granted	6,808	13,696	35,850	24,769	1,342	16,620	<b>99,085</b>
Guarantee commitments granted	1,135	7,185	19,386	20,119	3,300	84	<b>51,209</b>
<b>Total contingent liabilities</b>	<b>7,943</b>	<b>20,881</b>	<b>55,236</b>	<b>44,888</b>	<b>4,642</b>	<b>16,704</b>	<b>150,294</b>

## (F) Foreign exchange position

The table below breaks out the Group's main currency exposures. The remaining currencies are shown within 'Other currencies'. The Group manages its foreign exchange position on a daily basis. For this purpose, the Group has a set of internal limits.

(CZKml)	CZK	EUR	USD	Other currencies	Total
<b>Assets</b>					
Cash and current balances with central banks	30,581	1,594	199	289	32,663
Financial assets at fair value through profit or loss	15,245	3,241	262	93	18,841
Positive fair values of hedging financial derivatives	11,807	1,545	115	(59)	13,408
Available-for-sale financial assets	20,635	8,931	146	0	29,712
Assets held for sale	319	0	0	0	319
Amounts due from banks	191,116	30,513	6,078	667	228,374
Loans and advances to customers	482,125	111,265	3,808	904	598,102
Revaluation differences on portfolios hedge items	(251)	0	0	0	(251)
Held-to-maturity investments	47,528	12,387	0	0	59,915
Current tax assets	40	2	0	0	42
Deferred tax assets	50	20	0	0	70
Prepayments, accrued income and other assets	4,550	1,088	183	2	5,823
Investments in subsidiaries and associates	1,181	0	0	0	1,181
Intangible assets	4,675	9	0	0	4,684
Tangible assets	7,400	4	0	0	7,404
Goodwill	3,752	0	0	0	3,752
<b>Total assets</b>	<b>820,753</b>	<b>170,599</b>	<b>10,791</b>	<b>1,896</b>	<b>1,004,039</b>
<b>Liabilities</b>					
Amounts due to central banks	1	0	0	0	1
Financial liabilities at fair value through profit or loss	16,935	2,063	213	93	19,304
Negative fair values of hedging financial derivatives	8,658	1,683	47	(59)	10,329
Amounts due to banks	25,543	57,554	715	238	84,050
Amounts due to customers	686,223	61,288	12,164	2,368	762,043
Revaluation differences on portfolios hedge items	(2,370)	958	(56)	0	(1,468)
Securities issued	4,782	23	27	0	4,832
Current tax liabilities	247	16	0	0	263
Deferred tax liabilities	991	8	0	0	999
Accruals and other liabilities	15,564	2,491	657	157	18,869
Provisions	1,404	438	14	55	1,911
Subordinated debt	0	2,560	0	0	2,560
Equity	99,887	459	0	0	100,346
<b>Total liabilities</b>	<b>857,865</b>	<b>129,541</b>	<b>13,781</b>	<b>2,852</b>	<b>1,004,039</b>
<b>Net FX position as of 31 December 2017</b>	<b>(37,112)</b>	<b>41,058</b>	<b>(2,990)</b>	<b>(956)</b>	<b>0</b>
Off-balance sheet assets*	1,605,785	666,135	130,226	17,213	2,419,359
Off-balance sheet liabilities*	1,568,710	706,201	126,893	16,312	2,418,116
<b>Net off-balance sheet FX position as of 31 December 2017</b>	<b>37,075</b>	<b>(40,066)</b>	<b>3,333</b>	<b>901</b>	<b>1,243</b>
<b>Total net FX position as of 31 December 2017</b>	<b>(37)</b>	<b>992</b>	<b>343</b>	<b>(55)</b>	<b>1,243</b>

\* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot transactions and nominal value of all derivative deals.

(CZKm)	CZK	EUR	USD	Other currencies	Total
<b>Assets</b>					
Cash and current balances with central banks	110,351	1,250	325	315	112,241
Financial assets at fair value through profit or loss	23,884	5,505	314	6	29,709
Positive fair values of hedging financial derivatives	19,747	2,333	251	0	22,331
Available-for-sale financial assets	29,724	9,519	177	0	39,420
Assets held for sale	906	0	0	0	906
Amounts due from banks	15,587	25,742	9,989	453	51,771
Loans and advances to customers	462,360	110,710	6,297	831	580,198
Revaluation differences on portfolios hedge items	32	0	0	0	32
Held-to-maturity investments	51,393	14,069	0	0	65,462
Current tax assets	71	15	0	0	86
Deferred tax assets	42	36	0	0	78
Prepayments, accrued income and other assets	3,991	850	77	1	4,919
Investments in subsidiaries and associates	1,280	0	0	0	1,280
Intangible assets	3,878	8	0	0	3,886
Tangible assets	6,661	5	0	0	6,666
Goodwill	3,752	0	0	0	3,752
<b>Total assets</b>	<b>733,659</b>	<b>170,042</b>	<b>17,430</b>	<b>1,606</b>	<b>922,737</b>
<b>Liabilities</b>					
Amounts due to central banks	1	0	0	0	1
Financial liabilities at fair value through profit or loss	14,942	2,961	258	6	18,167
Negative fair values of hedging financial derivatives	7,127	2,219	82	0	9,428
Amounts due to banks	4,082	48,607	1,379	56	54,124
Amounts due to customers	610,872	73,655	12,246	2,604	699,377
Revaluation differences on portfolios hedge items	762	0	0	0	762
Securities issued	13,150	19	38	216	13,423
Current tax liabilities	356	4	0	0	360
Deferred tax liabilities	3,819	11	0	0	3,830
Accruals and other liabilities	13,274	2,246	494	136	16,150
Provisions	1,283	328	59	44	1,714
Subordinated debt	0	0	0	0	0
Equity	105,094	307	0	0	105,401
<b>Total liabilities</b>	<b>774,762</b>	<b>130,357</b>	<b>14,556</b>	<b>3,062</b>	<b>922,737</b>
<b>Net FX position as of 31 December 2016</b>	<b>(41,103)</b>	<b>39,685</b>	<b>2,874</b>	<b>(1,456)</b>	<b>0</b>
Off-balance sheet assets*	1,287,299	502,923	147,940	16,001	1,954,163
Off-balance sheet liabilities*	1,250,358	539,059	150,152	14,682	1,954,251
<b>Net off-balance sheet FX position as of 31 December 2016</b>	<b>36,941</b>	<b>(36,136)</b>	<b>(2,212)</b>	<b>1,319</b>	<b>(88)</b>
<b>Total net FX position as of 31 December 2016</b>	<b>(4,162)</b>	<b>3,549</b>	<b>662</b>	<b>(137)</b>	<b>(88)</b>

\* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot transactions and nominal value of all derivative deals.



## **(G) Operational risk**

Since 2008, the Group has used the Advanced Measurement Approach (AMA) for operational risk management. In addition to standard operational risk instruments used within the AMA approach, such as operational losses collection, Risk Control Self-Assessment (RCSA), Key Risk Indicators (KRI) or Scenario Analysis (SA), the Group developed and deployed also a permanent supervision system consisting of a set of operational everyday controls and a set of formalised periodic controls. These controls are independently and on a continuous basis reviewed within a so-called second level of controls. The Group is continuously developing all the aforementioned operational risk instruments and supporting continuous development of an operational risk culture throughout all organisational units.

The information collected by the Operational Risks Department is regularly analysed and provided to the Group's management. Based on this information, the management may decide on further strategic steps within the framework of operational risk management. The evaluation of operational risks is also an integral component of the process for new product development and validation.

Co-operation within consolidated operational risk management has been deepened among KB Group companies. The AMA approach has been used in four Group companies, of which two are banking entities (Komerční banka, a.s. and Modrá pyramida stavební spořitelna, a.s.) and two non-banking entities (SG Equipment Finance Czech Republic s.r.o. and ESSOX s.r.o.).

## **(H) Legal risk**

The Group regularly monitors and evaluates legal disputes filed against it. In order to cover all contingent liabilities arising from legal disputes, the Group establishes a provision equal to the claimed amount in respect of all litigation where it is named as a defendant and where the likelihood of payment has been estimated to exceed 50%. The Group also manages its legal risk through the assessment of legal risks involved in the contracts to which the Group is a party.

## **(I) Estimated fair value of assets and liabilities of the Group**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Group's financial instruments. In circumstances where quoted market prices are not readily available, the fair value is estimated, as appropriate, using discounted cash flow models or other generally acceptable pricing models. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect these estimates.

In estimating the fair value of the Group's financial instruments, the following methods and assumptions were used.

### **(a) Cash and current balances with central banks**

The reported values of cash and current balances with the central bank are generally deemed to approximate their fair value.

### **(b) Amounts due from banks**

The estimated fair value of amounts due from banks that mature in 180 days or less approximates their carrying amounts. The fair value of other amounts due from banks is estimated based upon discounted cash flow analysis using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis. The fair value of a loss loan is equal to the appraised value of the underlying collateral.

### **(c) Loans and advances to customers**

The fair value of variable yield loans that regularly reprice and which have no significant change in credit risk generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analysis based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

### **(d) Held-to-maturity investments**

The fair value of the held-to-maturity portfolio is based upon quoted market prices. Where no market prices are available, the fair value is estimated based on discounted cash flow models using the interest rate currently offered as of the financial statements date.

(e) **Amounts due to central banks, banks and customers**

The fair value of deposits repayable on demand represents the carrying value of amounts repayable on demand as of the financial statements date. The carrying value of term deposits at variable interest rates approximates their fair values as of the financial statements date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates. Amounts due to banks and customers at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total amounts due to banks and customers approximates the carrying values as of the financial statements date.

(f) **Securities issued**

The fair value of debt securities issued by the Group is based upon quoted market prices. Where no market prices are available, the fair value is estimated using a discounted cash flow analysis.

*The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the Group's Statement of Financial Position at their fair values:*

(CZKm)	31 Dec 2017		31 Dec 2016	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
Cash and current balances with central banks	32,663	32,663	112,241	112,241
Amounts due from banks	228,374	228,670	51,771	53,530
Loans and advances to customers	598,102	604,574	580,198	596,308
Held-to-maturity investments	59,915	62,177	65,462	69,585
<b>Financial liabilities</b>				
Amounts due to central banks	1	1	1	1
Amounts due to banks	84,050	84,028	54,124	54,125
Amounts due to customers	762,043	761,497	699,377	697,488
Securities issued	4,832	4,482	13,423	10,893
Subordinated debt	2,560	2,560	0	0

*The following table presents the hierarchy of fair values for those financial assets and liabilities not presented on the Group's Statement of Financial Position at their fair values:*

(CZKm)	31 Dec 2017				31 Dec 2016			
	Fair value	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>								
Cash and current balances with central banks	32,663	10,070	0	22,593	112,241	8,997	0	103,244
Amounts due from banks	228,670	0	0	228,670	53,530	0	0	53,530
Loans and advances to customers	604,574	0	0	604,574	596,308	0	0	596,308
Held-to-maturity investments	62,177	62,177	0	0	69,585	69,585	0	0
<b>Financial liabilities</b>								
Amounts due to central banks	1	0	0	1	1	0	0	1
Amounts due to banks	84,028	0	0	84,028	54,125	0	0	54,125
Amounts due to customers	761,497	0	0	761,497	697,488	0	0	697,488
Securities issued	4,482	0	0	4,482	10,893	0	0	10,893
Subordinated debt	2,560	0	0	2,560	0	0	0	0

## (J) Allocation of fair values of financial instruments at fair value to the hierarchy of fair values

Financial assets and financial liabilities at fair value by fair value hierarchy (refer to Note 3.5.4):

(CZKm)	31 Dec 2017	Level 1	Level 2	Level 3	31 Dec 2016	Level 1	Level 2	Level 3
<b>Financial assets</b>								
Financial assets at fair value through profit or loss								
– Emission allowances	996	996	0	0	1,839	1,839	0	0
– Debt securities	1,633	1,300	333	0	9,606	8,501	1,105	0
– Derivatives	16,212	217	15,995	0	18,264	401	17,863	0
<b>Financial assets at fair value through profit or loss</b>	<b>18,841</b>	<b>2,513</b>	<b>16,328</b>	<b>0</b>	<b>29,709</b>	<b>10,741</b>	<b>18,968</b>	<b>0</b>
<b>Positive fair value of hedging financial derivatives</b>	<b>13,408</b>	<b>0</b>	<b>13,408</b>	<b>0</b>	<b>22,331</b>	<b>0</b>	<b>22,331</b>	<b>0</b>
Available-for-sale financial assets								
– Shares and participation Certificates	241	0	0	241	182	0	0	182
– Debt securities	29,471	25,169	4,302	0	39,238	27,027	12,211	0
<b>Available-for-sale financial assets</b>	<b>29,712</b>	<b>25,169</b>	<b>4,302</b>	<b>241</b>	<b>39,420</b>	<b>27,027</b>	<b>12,211</b>	<b>182</b>
<b>Revaluation differences on portfolios hedge items</b>	<b>(251)</b>	<b>0</b>	<b>(251)</b>	<b>0</b>	<b>32</b>	<b>0</b>	<b>32</b>	<b>0</b>
<b>Financial assets at fair value</b>	<b>61,710</b>	<b>27,682</b>	<b>33,787</b>	<b>241</b>	<b>91,492</b>	<b>37,768</b>	<b>53,542</b>	<b>182</b>
<b>Financial liabilities</b>								
Financial liabilities at fair value through profit or loss								
– Sold securities	1,673	1,673	0	0	160	160	0	0
– Derivatives	17,631	406	17,225	0	18,007	261	17,746	0
<b>Financial liabilities at fair value through profit or loss</b>	<b>19,304</b>	<b>2,079</b>	<b>17,225</b>	<b>0</b>	<b>18,167</b>	<b>421</b>	<b>17,746</b>	<b>0</b>
<b>Negative fair value of hedging financial derivatives</b>	<b>10,329</b>	<b>0</b>	<b>10,329</b>	<b>0</b>	<b>9,428</b>	<b>0</b>	<b>9,428</b>	<b>0</b>
<b>Revaluation differences on portfolios hedge items</b>	<b>(1,468)</b>	<b>0</b>	<b>(1,468)</b>	<b>0</b>	<b>762</b>	<b>0</b>	<b>762</b>	<b>0</b>
<b>Financial liabilities at fair value</b>	<b>28,165</b>	<b>2,079</b>	<b>26,086</b>	<b>0</b>	<b>28,357</b>	<b>421</b>	<b>27,936</b>	<b>0</b>

Financial assets at fair value – Level 3:

	2017		2016	
(CZKm)	Available-for-sale financial assets	Total	Available-for-sale financial assets	Total
<b>Balance as of 1 January</b>	<b>182</b>	<b>182</b>	<b>675</b>	<b>675</b>
Comprehensive income/(loss)				
– In the Statement of Income	0	0	0	0
– In Other Comprehensive Income	90	90	303	303
Purchases	0	0	164	164
Sales	0	0	(960)	(960)
Settlement	0	0	0	0
Transfer from Level 1	0	0	0	0
Foreign exchange rate difference	(32)	(32)	0	0
<b>Balance as of 31 December</b>	<b>240</b>	<b>240</b>	<b>182</b>	<b>182</b>

### Shares and participation certificates

When using an alternative method of valuation based on the price/book value ratio, the fair value is not significantly different from the fair value determined on the basis of the present value of future cash flows which was used for the original valuation.

## 44 Offsetting financial assets and financial liabilities

The table below provides information about rights of offset and related arrangements for financial instruments as of 31 December 2017:

(CZKm)	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
	Gross amount of financial assets/liabilities*	Gross amount of financial liabilities/assets	Net amount of financial assets/liabilities	Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	30,864	1,244	29,620	20,543	5,088	3,989
Negative fair value of derivatives	29,204	1,244	27,960	20,543	7,034	383

\* This item includes also counterparties with only positive or negative fair value of derivatives.

The table below provides information about rights of offset and related arrangements for financial instruments as of 31 December 2016:

(CZKm)	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
	Gross amount of financial assets/liabilities*	Gross amount of financial liabilities/assets	Net amount of financial assets/liabilities	Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	40,595	0	40,595	22,719	9,817	8,059
Negative fair value of derivatives	27,435	0	27,435	22,719	4,234	482

\* This item includes also counterparties with only positive or negative fair value of derivatives.

## 45 Assets in custody and assets under management

The table below provides information about assets in custody and assets under management:

(CZKm)	31 Dec 2017		31 Dec 2016	
	Cash	Securities	Cash	Securities
Assets in custody	4,520	525,944	3,305	528,431
Assets in custody of KB Penzijní společnost, a.s.	0	54,622	0	52,239
Assets under management	0	2,987	0	2,137

## 46 Post balance sheet events

### Merger by acquisition of ESSOX s.r.o. and PSA FINANCE ČESKÁ REPUBLIKA, s.r.o.

As of the effective date 1 January 2018, ESSOX s.r.o. and PSA FINANCE CZECH REPUBLIC, s.r.o. were merged into ESSOX s.r.o. ESSOX s.r.o. is a subsidiary of the Bank and PSA FINANCE CZECH REPUBLIC, s.r.o. had been a subsidiary of ESSOX s.r.o.

### Sale of share in Cataps, s.r.o.

In February 2018, the Bank exercised the right to sell a 19% share in Cataps, s.r.o. to Worldline SA/NV. As of the end of 2017, the share had been classified as 'Assets held for sale'. The result of the transaction will be recognised and presented in the 'Income from share of associated undertakings'.

Upon conclusion of the transaction, the Bank holds a remaining interest of 1% in Cataps, s.r.o. The Bank and Worldline will continue to work closely together within the KB SmartPay alliance.

### Adoption of IFRS by Modrá pyramida stavební spořitelna, a.s.

Starting from the accounting period beginning on 1 January 2018, Modrá pyramida stavební spořitelna, a.s. changed its accounting and reporting policies from Czech GAAP (Act No. 563/1991 Coll., on Accounting; Decree of the Ministry of Finance of the Czech Republic No. 501/2002 Coll., implementing certain provisions of Act No. 563/1991 for banks and financial institutions; and relevant accounting standards prepared and promulgated by the Ministry of Finance of the Czech Republic) to International Financial Reporting Standards as adopted by the European Union.

## Separate Financial Statements

prepared in accordance with International Financial Reporting Standards as adopted by the European Union as of 31 December 2017

## Separate Statement of Income and Statement of Comprehensive Income for the year ended 31 December 2017

### Separate Statement of Income for the year ended 31 December 2017

(CZKm)	Note	2017	2016
Interest income and similar income	5	23,189	23,186
Interest expense and similar expense	5	(5,584)	(5,337)
Dividend income	5	1,912	2,722
<b>Net interest income and similar income</b>		<b>19,517</b>	<b>20,571</b>
Net fee and commission income	6	5,853	5,979
Net profit/(loss) on financial operations	7	3,570	3,833
Other income	8	276	225
<b>Net operating income</b>		<b>29,216</b>	<b>30,608</b>
Personnel expenses	9	(6,495)	(6,261)
General and administrative expenses	10	(4,859)	(4,920)
Depreciation, amortisation and impairment of operating assets	11	(1,709)	(1,536)
Net profits on other assets	11	84	7
<b>Total operating expenses</b>		<b>(12,979)</b>	<b>(12,710)</b>
<b>Profit before allowances for loan losses, provisions for other risk, profit on subsidiaries and income tax</b>		<b>16,237</b>	<b>17,898</b>
Allowances for loan losses	12	281	(1,884)
Provisions for other risk expenses	12	5	26
<b>Cost of risk</b>		<b>286</b>	<b>(1,858)</b>
Profit/(loss) on subsidiaries and associates	13	1,198	588
<b>Profit before income tax</b>		<b>17,721</b>	<b>16,628</b>
Income tax	14	(2,807)	(2,509)
<b>Net profit for the period</b>	<b>15</b>	<b>14,914</b>	<b>14,119</b>

The accompanying Notes form an integral part of these Separate Financial Statements.

### Separate Statement of Comprehensive Income for the year ended 31 December 2017

(CZKm)	Note	2017	2016
<b>Net profit for the period</b>	<b>15</b>	<b>14,914</b>	<b>14,119</b>
<b>Items that will not be reclassified to the Statement of Income</b>			
Remeasurement of retirement benefits plan, net of tax	39	(23)	(93)
<b>Items that may be reclassified subsequently to the Statement of Income</b>			
Cash flow hedging			
– Net fair value gain/(loss), net of tax	40	(8,371)	1,945
– Transfer to net profit/(loss), net of tax	40	(2,680)	(3,242)
Foreign exchange difference on translation of a foreign net investment		(11)	0
Net value gain/(loss) on available-for-sale financial assets, net of tax	41	(755)	(1,354)
<b>Other comprehensive income for the period, net of tax</b>		<b>(11,840)</b>	<b>(2,744)</b>
<b>Total comprehensive income for the period, net of tax</b>		<b>3,074</b>	<b>11,375</b>

The accompanying Notes form an integral part of these Separate Financial Statements.



## Separate Statement of Financial Position as of 31 December 2017

(CZKm)	Note	31 Dec 2017	31 Dec 2016
<b>ASSETS</b>			
Cash and current balances with central banks	16	32,523	103,993
Financial assets at fair value through profit or loss	17	19,369	30,482
Positive fair value of hedging financial derivatives	42	13,017	21,614
Available-for-sale financial assets	18	23,677	31,411
Assets held for sale	19	127	587
Amounts due from banks	20	232,279	57,983
Loans and advances to customers	21	535,321	527,143
Held-to-maturity investments	22	56,936	62,425
Current tax assets		0	0
Deferred tax assets	33	18	31
Prepayments, accrued income and other assets	23	3,923	3,012
Investments in subsidiaries and associates	24	19,928	21,292
Intangible assets	25	4,189	3,428
Tangible assets	26	4,765	4,664
<b>Total assets</b>		<b>946,072</b>	<b>868,065</b>
<b>LIABILITIES AND EQUITY</b>			
Amounts due to central banks		1	1
Financial liabilities at fair value through profit or loss	27	19,834	18,940
Negative fair value of hedging financial derivatives	42	10,189	9,373
Amounts due to banks	28	69,600	43,282
Amounts due to customers	29	702,053	638,410
Revaluation differences on portfolios hedge items		(1,206)	0
Securities issued	30	35,338	45,755
Current tax liabilities		254	357
Deferred tax liabilities	33	265	3,065
Accruals and other liabilities	31	16,682	14,149
Provisions	32	1,898	1,701
Subordinated debt	34	2,560	0
<b>Total liabilities</b>		<b>857,468</b>	<b>775,033</b>
Share capital	35	19,005	19,005
Share premium and reserves		69,599	74,027
<b>Total equity</b>		<b>88,604</b>	<b>93,032</b>
<b>Total liabilities and equity</b>		<b>946,072</b>	<b>868,065</b>

The accompanying Notes form an integral part of these Separate Financial Statements.

These Separate Financial Statements were approved by the Board of Directors on 6 March 2018.

Signed on behalf of the Board of Directors:



**Jan Juchelka**

Chairman of the Board of Directors and Chief Executive Officer



**Libor Löfler**

Member of the Board of Directors and Chief Operating Officer

## Separate Statement of Changes in Equity for the year ended 31 December 2017

(CZKm)	Share capital	Capital funds and retained earnings*	Remeasurement of retirement benefits plan	Revaluation of hedging instruments	Translation of a foreign net investment	Available-for-sale financial assets	Total equity
<b>Balance as of 31 December 2015</b>	<b>19,005</b>	<b>57,418</b>	<b>(38)</b>	<b>12,836</b>	<b>6</b>	<b>4,076</b>	<b>93,303</b>
Treasury shares, other	0	137	0	0	0	0	137
Payment of dividends	0	(11,783)	0	0	0	0	(11,783)
<b>Transactions with owners</b>	<b>0</b>	<b>(11,646)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(11,646)</b>
Net profit for the period	0	14,119	0	0	0	0	14,119
Other comprehensive income for the period, net of tax	0	0	(93)	(1,297)	0	(1,354)	(2,744)
<b>Comprehensive income for the period</b>	<b>0</b>	<b>14,119</b>	<b>(93)</b>	<b>(1,297)</b>	<b>0</b>	<b>(1,354)</b>	<b>11,375</b>
<b>Balance as of 31 December 2016</b>	<b>19,005</b>	<b>59,891</b>	<b>(131)</b>	<b>11,539</b>	<b>6</b>	<b>2,722</b>	<b>93,032</b>
Treasury shares, other	0	100	0	0	0	0	100
Payment of dividends	0	(7,602)	0	0	0	0	(7,602)
<b>Transactions with owners</b>	<b>0</b>	<b>(7,502)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(7,502)</b>
Net profit for the period	0	14,914	0	0	0	0	14,914
Other comprehensive income for the period, net of tax	0	0	(23)	(11,051)	(11)	(755)	(11,840)
<b>Comprehensive income for the period</b>	<b>0</b>	<b>14,914</b>	<b>(23)</b>	<b>(11,051)</b>	<b>(11)</b>	<b>(755)</b>	<b>3,074</b>
<b>Balance as of 31 December 2017</b>	<b>19,005</b>	<b>67,303</b>	<b>(154)</b>	<b>488</b>	<b>(5)</b>	<b>1,967</b>	<b>88,604</b>

\* Capital funds and retained earnings consist of other funds created from profit in the amount of CZK 4,189 million (2016: CZK 4,189 million), share premium, treasury shares and share-based transactions in the amount of CZK -192 million (2016: CZK -221 million), net profit from the period in the amount of CZK 14,914 million (2016: CZK 14,119 million) and retained earnings in the amount of CZK 48,392 million (2016: CZK 41,804 million).

The accompanying Notes form an integral part of these Separate Financial Statements.

## Separate Statement of Cash Flows for the year ended 31 December 2017

(CZKm)	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received	20,915	20,691
Interest paid	(2,542)	(3,928)
Fee and commission received	6,609	6,868
Fee and commission paid	(752)	(885)
Net cash received from financial operations	2,007	2,356
Other income receipts	166	225
Cash payments to employees and suppliers, and other payments	(10,666)	(11,459)
<b>Operating cash flow before changes in operating assets and operating liabilities</b>	<b>15,737</b>	<b>13,868</b>
Amounts due from banks (received/paid)	(174,999)	(3,055)
Financial assets at fair value through profit or loss	8,764	(588)
Loans and advances to customers	(9,127)	(43,582)
Other payments received	(820)	163
<b>(Increase)/decrease in operating assets</b>	<b>(176,182)</b>	<b>(47,062)</b>
Amounts due to banks (received/paid)	21,851	(3,163)
Financial liabilities at fair value through profit or loss	1,513	(1,248)
Amounts received from customers	61,829	45,788
Other payments made	2,348	209
<b>Increase/(decrease) in operating liabilities</b>	<b>87,541</b>	<b>41,586</b>
Net cash flow from operating activities before tax	(72,904)	8,392
Income tax paid	(2,889)	(2,025)
<b>Net cash flow from operating activities</b>	<b>(75,793)</b>	<b>6,367</b>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>		
Dividends received	1,912	2,722
Purchase of held-to-maturity investments	0	(5,611)
Maturity of held-to-maturity investments*	5,696	5,148
Purchase of available-for-sale financial assets	(3,314)	(1,353)
Sale and maturity of available-for-sale financial assets*	9,831	2,497
Purchase of tangible and intangible assets	(2,588)	(1,838)
Sale of tangible and intangible assets	360	56
Purchase of investments in subsidiaries and associates	(183)	0
Sale/decrease of investments in subsidiaries and associates	3,027	1,373
<b>Net cash flow from investment activities</b>	<b>14,741</b>	<b>2,994</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(7,537)	(11,735)
Securities issued	1,910	0
Securities redeemed*	(13,432)	(9,976)
Subordinated debt	2,560	0
<b>Net cash flow from financing activities</b>	<b>(16,341)</b>	<b>(21,711)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(77,393)</b>	<b>(12,350)</b>
Cash and cash equivalents at the beginning of the year	101,612	113,960
Foreign exchange differences on cash and cash equivalents at beginning of year	(244)	2
<b>Cash and cash equivalents at the end of the year</b> (refer to Note 36)	<b>23,975</b>	<b>101,612</b>

\* The amount also includes coupons received and paid.

The accompanying Notes form an integral part of these Separate Financial Statements.

# Notes to the Separate Financial Statements as of 31 December 2017

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## 1 Principal activities

Komerční banka, a.s. (henceforth the “Bank”) is incorporated in the Czech Republic as a joint-stock company. The principal activities of the Bank are as follow:

- I. Providing loans, advances and guarantees in Czech crowns and foreign currencies;
- II. Acceptance and placement of deposits in Czech crowns and foreign currencies;
- III. Providing current and term deposit accounts in Czech crowns and foreign currencies;
- IV. Providing banking services through an extensive branch network in the Czech Republic;
- V. Treasury operations in the interbank market;
- VI. Servicing foreign trade transactions; and
- VII. Investment banking.

The registered office address of the Bank is Na Příkopě 33/969, 114 07 Prague 1. The Bank has operations in the Czech Republic and Slovakia through its foreign branch (Komerční banka, a.s., pobočka zahraničnej banky).

The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale S.A. is the Bank's majority shareholder, holding 60.35% (2016: 60.35%) of the Bank's issued share capital.

## 2 Events for the year ended 31 December 2017

### **Dividends declared in respect of the year ended 31 December 2016**

At the General Meeting held on 25 April 2017 the shareholders approved a dividend for the year ended 31 December 2016 of CZK 40 per share before tax. The dividend was declared in the aggregate amount of CZK 7,602 million and the remaining balance of the net profit was allocated to retained earnings. The dividends were paid out in Czech crowns.

### **Change in the Chief Executive Officer and Chairman of the Board of Directors of the Bank**

Albert Le Dirac'h, the Chief Executive Officer and Chairman of the Board of Directors, retired from his position in the Bank as at 2 August 2017. The Supervisory Board of the Bank elected Jan Juchelka a member of the Board of Directors with effect from 3 August 2017. The Board of Directors of the Bank subsequently elected Jan Juchelka Chairman of the Board of Directors and appointed him Chief Executive Officer with effect from the same date.

### **Change to the position of member of the board responsible for risk management**

The Supervisory Board of the Bank elected Didier Colin as a member of the Board of Directors with effect from 1 October 2017.

### **Acceptance of subordinated debt**

In relation to optimising capital structure, the Bank took on subordinated debt of EUR 100 million (equivalent to CZK 2,554 million) granted by its parent company, Société Générale S.A., in October 2017. The subordinated debt qualified as Tier 2 regulatory capital and strengthened the Bank's capital buffer in response to increasing regulatory capital requirements while enhancing the Bank's capacity to grow risk-weighted assets.

### **Changes in the Bank's financial group**

In March 2017, the Bank sold its subsidiary NP 33, s.r.o. to CRI NP 33, s.r.o., which is owned by Commerz Real Investmentgesellschaft mbH. NP 33, s.r.o. is sole owner of the Bank's headquarters building at Na Příkopě 33 in Prague. The sale constitutes part of the Bank's plan to centralise its headquarters into fewer premises.

In May 2017, the equity in Bastion European Investments S.A. was decreased by EUR 3.8 million (equivalent to CZK 108 million). The equity in Bastion European Investments S.A. was again decreased by EUR 5 million (equivalent to CZK 142 million) in October 2017. Both decreases were initiated solely by the Bank as the majority shareholder of Bastion European Investments S.A.

In October 2017, the Bank acquired the company Office Center Stodůlky a.s., which is owner of the new office building in Prague – Stodůlky. Completion of the building is expected in mid-2018, and the acquisition constitutes part of the Bank's plan to centralise its headquarters into fewer premises. Following the acquisition, the company was renamed to STD2, a.s. (registered as of 31 October 2017).

In December 2017, the Bank decreased the capital of its subsidiary Protos, uzavřený investiční fond, a.s. through decreasing the reserve fund and the share premium by CZK 1,550 million. The share of the Bank in this decrease was CZK 1,297 million, which reflects the Bank's 83.65% ownership share. The remaining ownership is held by Factoring KB, a.s., which is itself fully owned by the Bank.

### 3 Principal accounting policies

These are Separate Financial Statements. The Consolidated Financial Statements are issued as of the same date. As of 31 December 2017, the total consolidated equity is CZK 100,346 million (2016: CZK 105,401 million) and for the year ended 31 December 2017 total consolidated profit is CZK 15,274 million (2016: CZK 14,074 million).

The principal accounting policies followed in the preparation of these Separate Financial Statements are set out below.

#### 3.1 Statement of compliance with IFRS

The Separate Financial Statements are prepared pursuant to and comply with International Financial Reporting Standards (hereafter only "IFRS") as adopted by the European Union and effective for the annual period beginning on 1 January 2017.

The presented Separate Financial Statements for the year ended 31 December 2017 are prepared on the basis of current best estimates. The management of the Bank believes that these present a true and fair view of the Bank's financial results and financial position using all relevant and available information as of the financial statements date.

#### 3.2 Underlying assumptions of the Separate Financial Statements

##### 3.2.1 Accrual basis

The Separate Financial Statements are prepared on an accrual accounting basis (i.e. the effects of transactions and other events are recognised when they occur and are reported in the Separate Financial Statements for the period to which they relate).

The exception is the Statement of Cash Flows, which is prepared on a cash basis (i.e. it presents cash inflows and outflows during the reporting period without regard to the period to which each transaction relates).

##### 3.2.2 Going concern

The Separate Financial Statements are prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future. The Bank has neither the intention nor the need to liquidate or materially curtail the scale of its operations.

##### 3.2.3 Reporting period

The Bank reports for a 12-month period which is identical to the calendar year.

#### 3.3 Basis of preparation

##### 3.3.1 Presentation currency

The Separate Financial Statements are presented in Czech crowns (hereafter only "CZK"), which constitute the Bank's presentation currency. The balances shown are stated in CZK million unless indicated otherwise.

##### 3.3.2 Historical cost

The Separate Financial Statements are prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and hedging derivatives and hedge items in fair value hedge accounting, whose items are measured at fair value.

Assets held for sale are measured at the lower of their (i) fair value less cost to sell; or (ii) carrying amount just prior to reclassification into 'Assets held for sale'.

##### 3.3.3 Significant accounting judgements and estimates

In applying the accounting policies for the purpose of preparing the Separate Financial Statements in accordance with IFRS, it is necessary for the Bank's management to use professional judgement and make estimates and assumptions. These impact upon reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the financial statements date and the reported amounts of revenues and expenses during the reporting period. These estimates and judgements are based on the information available as of the financial statements date and they relate especially to the determination of:

- Fair values in the Statement of Financial Position of financial instruments not quoted in an active market which are classified as financial assets or liabilities at fair value through profit or loss, hedging derivatives or available-for-sale financial assets (refer to Note 3.5.5);
- The value of intangible assets (refer to Note 3.5.9);
- The amount of impairment of assets (refer to Notes 3.5.5 and 3.5.9);
- Provisions recognised under liabilities (refer to Note 3.5.10); and
- The amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies (refer to Note 3.5.7).



Information about the key judgements and assumptions concerning the future and other key sources of estimation uncertainty as of the financial statements date that have a significant risk of causing material adjustment to the carrying values of assets and liabilities are disclosed in individual notes as appropriate.

### 3.3.4 Investments in subsidiaries and associates

A subsidiary is an entity in which the Bank has control, i.e. it directly or indirectly owns more than half the voting rights or it has the power to govern the entity in another way. An associate is an entity in which the Bank has significant influence, i.e. directly or indirectly owns 20% to 50% of the voting rights.

Investments in which the Bank directly or indirectly owns less than 20% of the voting rights are classified as '*Available-for-sale financial assets*' and are reported as such.

Investments in subsidiaries and associates are measured at historical cost (i.e. foreign currency investments are translated using the foreign exchange rate at the transaction date) decreased by potential accumulated impairment losses. The Bank assesses regularly at the end of each reporting period whether there is any impairment loss by comparing the carrying values of each investment with its recoverable amount. If the recoverable amount is lower, the Bank recognises the impairment loss through the use of an allowances account. Investments in subsidiaries and associates are presented in the line '*Investments in subsidiaries and associates*'.

## 3.4 Application of new and revised IFRS

### 3.4.1 Standards and interpretations newly applied by the Bank in the current period

The following standards, interpretations and amendments were newly applied by the Bank as from 1 January 2017. They have no impact in the current period (and/or prior period).

Standard	Impact/Comments
Recognition of Deferred Tax Assets for Unrealised Losses  (Amendments to IAS 12 Income Taxes)	The amendments clarify how to account for a deferred tax asset that is related to debt instruments measured at fair value for accounting purposes and at cost for tax purposes in circumstances in which changes in the market interest rate decrease the fair value below cost. This applies irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. The amendments also clarify that the carrying amount of an asset does not limit the estimation of probable future taxable profits.
Disclosure Initiative  (Amendments to IAS 7 Statement of Cash Flows)	The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The following changes shall be disclosed (to the extent necessary): changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes.

### 3.4.2 Issued standards and interpretations not applied for the current period

Although the following standards, interpretations and amendments had been issued, they are not yet effective for the reporting period beginning on 1 January 2017 and the Bank has decided not to adopt them early. The Bank has decided not to adopt early the standards and interpretations which were already approved by the European Commission.

Currently, the Bank does not anticipate that their application will significantly impact the Bank's financial position and financial performance for the reporting period, with the exception of IFRS 9 Financial Instruments and IFRS 16 Leases.

#### IFRS 9 Financial Instruments

IFRS 9 Financial Instruments supersedes the existing standard IAS 39. It introduces a new approach to the classification and measurement of financial assets, a new credit risk impairment methodology and new hedge accounting rules, except accounting for portfolio hedging for which the IASB has a separate project (the first discussion paper was issued in April 2014).

Application of the new classification and measurement methodology means that financial assets must be classified upon initial application of the standard based on both the entity's business model for managing the financial assets (hold to collect, hold to collect and sell, other business models) and the financial asset's contractual cash flow characteristics, i.e. applying of the "solely payment of principal and interest" test (SPPI). Based on business model determination and consideration of contractual cash flow characteristics, financial assets will be newly measured at amortised cost, at fair value through profit or loss, or at fair value through other comprehensive income.

No impact on classification and measurement is expected for the following financial assets which will continue to be measured on the same basis under IFRS 9: debt instruments classified in the current fair value through profit or loss portfolio and equity instruments classified in the available-for-sale portfolio, for which the Bank has decided to use the irrevocable election at initial recognition to measure these at fair value with changes to be recognised in other comprehensive income.

The loans and debt instruments currently classified as loans and receivables, held-to-maturity and available-for-sale meet the SPPI characteristics. They will be classified based on the relevant business models, thus causing a part of the bonds to change their measurement basis. The bonds forming part of the liquidity buffer are classified into business models as follows: (i) all the EUR-denominated government bonds (or quasi-government bonds of CEB and EIB) and new investments from 1 January 2018 onwards into CZK-denominated bonds with maturity longer than 12 years under the business model hold to collect and sell and hence measured at fair value through other comprehensive income; (ii) all current CZK-denominated government bonds (or quasi-government bonds) and corporate bonds and new investments from 1 January 2018 onwards into CZK-denominated bonds with maturity up to 12 years under the business model hold to collect and thus measured at amortised costs. The bonds not constituting part of the liquidity buffer are classified into business models as follows: (i) bonds meeting the SPPI characteristics under the business model hold to collect and hence measured at amortised costs; (ii) bonds not meeting the SPPI characteristics under the business model held-for-trading and hence measured at fair value through profit or loss.

Accordingly, as of 1 January 2018, the remaining balance of unamortised revaluation reserve in Other Comprehensive Income from the reclassification in 2014 of certain bonds from the available-for-sale to held-to-maturity portfolio and also the revaluation reserve from available-for-sale bonds newly measured at amortised costs under IFRS 9 will be both removed from equity and adjusted against the carrying amount of the financial assets. Similarly, the related deferred tax will be in both cases removed from equity. The revaluation of bonds currently measured at amortised costs and newly measured at fair value through other comprehensive income and the related deferred tax will be recognised in Other Comprehensive Income.

The application of the new impairment methodology, superseding the current IAS 39 incurred loss model, means earlier recognition of expected credit losses from the point at which financial instruments originate or are acquired. The Bank will use the existing methodology developed and used for IRB purposes adjusted to comply with the IFRS 9 Société Générale Group methodology. In particular, the Bank will use existing rating and loss estimation models with dedicated calibration enriched with a forward looking approach based on macroeconomic predictions. For the purpose of classifying individual loans and clients into stages defined by IFRS 9, the Bank will use, in particular, the relative criteria, supplemented by absolute criteria as well. The Bank defines significant increase of credit risk through relative criteria (e.g. increase in transaction PD value since origination) and absolute criteria (e.g. days past due, client's rating). The Bank is using synergies of loss allowances calculations according to IFRS 9 with the risk-weighted assets calculation (the usage of the same statistical models in both calculations) and regular stress-testing approach (forward-looking predictions in IFRS 9 calculations to be the same as in the regular stress testing). During 2017, the Bank was implementing the IFRS 9 requirements. Technical implementation has been finalised and is based on the utilisation of existing IT tools.

In the area of the hedge accounting, IFRS 9 provides entities with an accounting policy choice: either to continue to apply existing requirements in IAS 39 for all hedge relationships until the portfolio hedging project is completed or to apply the hedge accounting requirements of IFRS 9, including the possibility to use the scope exception for fair value hedge accounting for a portfolio hedge of interest rate risk. The Bank has decided to continue with the application of the hedge accounting methods in accordance with IAS 39 as adopted in the European Union.

Also, expanded disclosures and changes in presentation will have to be taken into account based on the new and amended requirements in IFRS 7 Financial Instruments: Disclosures, as triggered by IFRS 9. In addition, special disclosure requirements apply in the period of initial application of IFRS 9.

For the transitional purposes, the Bank will use the relief from restating comparative information. Any differences from the initial application of the standard will be recognised in equity with an estimated negative impact after tax of CZK 1,599 million, of which the estimated negative impact from classification and measurement changes is CZK 1,071 million and the estimated increase of the loss allowances net of tax from the first time application of the standard is CZK 528 million. From a capital adequacy perspective, it is expected that the overall impact will be a small increase in regulatory capital, related mainly to the classification and measurement changes by positive revaluation of debt instruments currently measured at amortised costs and newly measured at fair value through other comprehensive income. The removal of the remaining unamortised revaluation reserve in Other Comprehensive Income from the reclassification in 2014 of certain debt securities from the available-for-sale to held-to-maturity portfolio will not impact regulatory capital as the revaluation reserve was deducted from the regulatory capital before the transition. The estimated increase of the loss allowances net of tax from the first time application of the standard will have a negligible impact into regulatory capital, since this estimated increase will be compensated by release of lack of provisions, which is deductible item from the regulatory capital. The lack of provisions comes from different provisioning in accounting and CRR regulatory expected loss.

#### IFRS 16 Leases

IFRS 16 Leases replaces the current standard IAS 17. The new standard will fundamentally change the accounting from the lessee's point of view when ceasing to distinguish between finance leases and operating leases, and instead introducing a single on-balance sheet accounting model. This will be applicable for almost all leases with the optional exceptions for short-term leases and leases for which the underlying asset is of low value. The accounting by lessors under the new standard is substantially unchanged from today's accounting in IAS 17.

The Bank has already carried out the initial assessment and identified potential areas to be impacted by the application of the new IFRS 16 requirements. The Bank as a lessee under operating lease of office buildings and branches, in particular, will need to recognise those leases on the balance sheet, thereby causing an increase of assets (right-of-use assets) and liabilities (lease liabilities). In addition, the nature of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expenses with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including in particular the composition of the lease portfolio as of 1 January 2019, the assessment of the periods covered by extension or termination options, the Bank's borrowing rate at that date and the extent to which the practical expedients and recognition exemptions will be used. The Bank intends to apply the standard retrospectively using the cumulative catch-up approach, i.e. without restatement of comparative information and with the recognition in equity of the cumulative effect of initially applying the standard. Processes and systems need to be evaluated to comply with the increased disclosure requirements.

The Bank is assessing the potential effects of IFRS 16 on its capital adequacy requirements and resolution fund contribution. Based on the Basel Committee responses to IFRS 16, unless otherwise specified by the prudential regulator, a right-of-use asset should be treated for regulatory capital purposes according to the underlying asset, i.e. distinguishing tangible and intangible assets, and applying the risk-weight of 100% in case of tangible underlying asset.

Standard	Summarised content	Effective for reporting period beginning on or after
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures)	The amendment clarifies the accounting treatment for sale or contribution of assets between an investor and its associates or joint ventures. It resolves a current inconsistency between the existing requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures on how to calculate any gain or loss arising from this transaction. The accounting treatment depends on whether the non-monetary assets subject of the transaction constitute a "business", as defined in IFRS 3 Business Combinations. In such case, the gain or loss is recognised in full.	The effective date of 1 January 2016 was withdrawn and deferred indefinitely (early adoption continues to be permitted) EU endorsement postponed
Annual Improvements to IFRS 2014-2016 Cycle	Annual Improvements amend three standards predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.  Amendment to IFRS 12 does not apply to the Separate Financial Statements of the Bank.	1 January 2017 (amendment to IFRS 12) 1 January 2018 (amendments to IFRS 1 and IAS 28)
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	The amendments relate to three areas: the accounting for the effects of vesting conditions on cash-settled share-based payment transactions, the classification of share-based payment transactions with net settlement features for withholding tax obligations, and the accounting for modification of a share-based payment transaction that changes the classification from cash-settled to equity-settled.	1 January 2018
IFRS 15 Revenue from Contracts with Customers – new standard, issued in May 2014 Clarifications to IFRS 15, issued in April 2016	The new standard supersedes current revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.  It outlines a single comprehensive model for accounting and disclosure of revenue arising from contracts with customers to provide goods or services, regardless of the industry or the type of transaction. For the banking sector, the following areas in particular may be affected: credit card loyalty schemes, pricing mechanisms including variable amounts, distinct goods or services in multi-element arrangements, up-front fees at or near contract inception.  The Bank has assessed the effects of applying the new standard on the financial statements and has identified in particular the following areas that will be affected: performance fees in the light of constraints on variable consideration and insurance as a supplementary service in the light of the new and detailed guidance for principal versus agent considerations. The methods compliant with IFRS 15 will be adopted starting from 1 January 2018. However, as the Bank's main business lies outside the scope of IFRS 15, the expectation is that these changes will have insignificant impacts.	1 January 2018

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 9 Financial Instruments – new standard	<p>IFRS 9 supersedes the current IAS 39 Financial Instruments: Recognition and Measurement and introduces a new approach to the classification and measurement of financial assets, a new impairment methodology and new hedge accounting rules for micro hedges.</p> <p>The classification and measurement of financial assets depends on assessment of both: (i) a financial asset's contractual cash flow characteristics; and (ii) the entity's business model for managing the financial asset. The resulting measurement categories are:</p> <ul style="list-style-type: none"> <li>• Amortised cost;</li> <li>• Fair value through other comprehensive income; and</li> <li>• Fair value through profit or loss.</li> </ul> <p>In comparison to IAS 39, the embedded derivatives in financial assets are no longer bifurcated.</p> <p>In respect to financial liabilities, IFRS 9 retains almost all of the existing requirements from IAS 39 except changes in the entity's own credit risk for financial liabilities designated at fair value through profit or loss using the fair value option, which are newly presented in other comprehensive income.</p> <p>The impairment requirements in the new standard are based on an expected credit loss model and will be applied to both financial assets and off-balance sheet credit risk bearing exposures (loan commitments and financial guarantee contracts) not accounted for at fair value through profit or loss and excluding also equity instruments. Entities are required to recognise from initial recognition throughout the life of an asset a loss allowance to the extent of 12-month expected credit losses or lifetime expected credit losses depending on whether there has been a significant increase in credit risk after initial recognition. The measurement of expected credit losses should reflect a probability-weighted outcome, the time value of money and reasonable and supportable information. Furthermore IFRS 9 provides guidance on estimating expected credit losses for financial assets whose contractual conditions have been modified.</p> <p>The new hedge accounting requirements align hedge accounting more closely with risk management, which means that more of an entity's risk management activities may qualify for hedge accounting and more designations of groups of items as hedged items are possible. The new model does not fundamentally change the types of hedging relationships or the requirement to measure and recognise ineffectiveness under IAS 39. However, there is only a prospective effectiveness test remaining that is newly based on objective (focus on the economic relationship between the hedged item and the hedging instrument) and replaces the range of 80-125%.</p>	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	<p>Following IAS 21 The Effects of Changes in Foreign Exchange Rates, the interpretation addresses the accounting for foreign currency transactions or parts of transactions where:</p> <ul style="list-style-type: none"> <li>• there is consideration that is denominated or priced in a foreign currency;</li> <li>• the entity recognises a prepayment asset or a deferred income liability in respect of that consideration in advance of the recognition of the related asset, expense or income; and</li> <li>• the prepayment asset or deferred income liability is non-monetary.</li> </ul> <p>For the purposes of determining the exchange rate, IFRIC 22 specifies the date of the transaction as the date of initial recognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.</p>	1 January 2018 EU not yet endorsed

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 16 Leases – new standard	<p>The new standard, superseding IAS 17 Leases and related interpretations, establishes principles for the recognition, measurement, presentation and disclosure of leases for both: the lessee and the lessor.</p> <p>From the lessee's point of view, the standard newly provides a single on-balance sheet accounting model. Lessees are required to recognise assets (right-of-use assets) and liabilities (lease liabilities) for all leases unless the lease term is 12 months or less or the underlying asset is of low value, in which case the lessees have an accounting policy choice to apply a method similar to operating leases under IAS 17. A right-of-use asset is treated similarly as are other non-financial assets; it is depreciated in accordance with the requirements in IAS 16 Property, Plant and Equipment and tested for impairment under IAS 36 Impairment of Assets. A lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use its incremental borrowing rate.</p> <p>Lessors continue to classify leases as operating or finance, with an accounting approach substantially unchanged from IAS 17. For a finance lease, the net investment in the lease (lease receivable) is subject to the derecognition and impairment requirements in IFRS 9 Financial Instruments.</p>	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under IAS 12, in particular: (i) whether uncertain tax treatments should be considered separately; (ii) assumptions for taxation authorities' examinations; (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates; and (iv) effect of changes in facts and circumstances.	1 January 2019 EU not yet endorsed
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	<p>The amendments supplement the existing requirements in IFRS 9 for financial assets regarding early termination rights in order to enable measurement at amortised cost or at fair value through other comprehensive income, subject to an assessment of the business model, even in the case of negative compensation.</p> <p>The amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in derecognition. The entity shall recognise any adjustment to the amortised cost of the financial liability in profit or loss at the date of the modification or exchange.</p>	1 January 2019 EU not yet endorsed
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	The amendments clarify that the entity applies IFRS 9 (including impairment requirements) to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture to which the equity method is not applied.	1 January 2019 EU not yet endorsed
Annual Improvements to IFRS 2015-2017 Cycle	Annual Improvements amend four standards in three subject areas, predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.	1 January 2019 EU not yet endorsed
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. The companies are newly required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.	1 January 2019 EU not yet endorsed

### 3.4.3 Standards and interpretations not yet endorsed by the European Union

The European Commission decides on the applicability of IFRS issued by the IASB within the European Union by Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

As of the issuance date of these Separate Financial Statements, IFRS as adopted by the European Union does not differ from IFRS, except for provisions of IAS 39 prohibiting fair value hedge accounting applied to interest rate hedging on a portfolio basis for banking deposits, which has not been approved by the European Union (i.e. in the European Union this hedging is permitted). Should the full version of IAS 39 requirements be applied, the impact would be insignificant, as the Bank does not use interest rate hedging on a portfolio basis for banking deposits.

Those effective or issued standards and interpretations and/or amendments thereto not approved by the European Commission are highlighted in the previous section herein.

## 3.5 Principal accounting policies

### 3.5.1 Transactions in foreign currencies

#### 3.5.1.1 Functional and presentation currency

The Bank's functional currency (i.e. the currency of the primary economic environment in which the Bank operates) is the Czech crown.

The Bank has a branch in the Slovak Republic and a subsidiary, Bastion European Investments S.A., in Belgium. These both have the euro as their functional currency and are considered as foreign operations from a financial reporting point of view.

#### 3.5.1.2 Transactions and balances translation

Transactions realised in foreign currency (i.e. in a currency other than the functional currency) are translated into the functional currency at the date of initial recognition using the spot foreign exchange rate announced by the bank authority (hereafter only the "BA") for the respective foreign currency. Depending on the functional currency, the BA means the Czech National Bank (hereafter only the "CNB") for the Czech crown and the European Central Bank (hereafter only "ECB") for the euro.

At the end of the reporting period all balance sheet line items denominated in foreign currency are translated into the functional currency, depending on their nature, as follows:

- I. Foreign currency monetary items are translated using the closing rate (foreign exchange rate announced by the BA at the end of the reporting period);
- II. Non-monetary items that are measured at historical cost are translated using the BA's foreign exchange rate at the date of the transaction; and
- III. Non-monetary items that are measured at fair value in a foreign currency are translated using the BA's foreign exchange rate at the date when the fair value was determined.

Gains and losses related to the translation of foreign currency items at the end of the reporting period as well as those related to their settlement are recognised as gains or losses of the period in which they occur and are presented in the line '*Net profit/(loss) on financial operations*'.

Where a gain or loss from a fair value change in a non-monetary item denominated in foreign currency is recognised directly in Other Comprehensive Income, however, related foreign exchange rate differences are recognised in the same way. These non-monetary items include equity instruments. Also recognised in Other Comprehensive Income are foreign exchange rate differences related to the fair value revaluation of debt instruments classified as available-for-sale (excluding the effective portion of their fair value hedges and excluding foreign exchange rate differences related to changes in their amortised cost) and non-derivative financial liabilities (current accounts, deposits) used as hedging items for the cash flow hedge of foreign currency risk and the hedge of a net investment in a foreign operation.

### 3.5.2 Recognition of income and expenses

#### 3.5.2.1 Net interest income and similar income

Interest income and expense related to interest-bearing instruments, except for instruments classified as financial assets or financial liabilities at fair value through profit or loss and interest hedging derivatives, are recognised on an accrual basis in the Statement of Income in the lines '*Interest income and similar income*' and '*Interest expense and similar expense*' using the effective interest rate (refer to 3.5.5.7 Effective interest rate method). Interest income and expense related to interest rate hedging derivatives are recognised in the lines described on an accrual basis using the contractual interest rate of the corresponding derivative. Late-fee income is recognised at the date of its payment and presented in the line '*Interest income and similar income*'.

Dividend income is recognised when the Bank's right to receive a dividend payment is established and is presented in the line '*Dividend income*'.



### 3.5.2.2 Net fee and commission income

The recognition of income from fees and commissions depends on the purpose for which a fee was assessed and the basis of accounting for any associated financial instrument. In accordance with the substance of fees and nature of services for which they are assessed, the Bank distinguishes the following three categories of fees:

- Fees and commissions that comprise an integral component of the effective interest rate of a financial instrument are recognised in the line '*Interest income and similar income*';
- Fees and commissions for services provided – income from these is recognised as revenue when services are provided and it is presented in the line '*Net fee and commission income*';
- Fees and commissions for the execution of an act – income from these is recognised as revenue when the act has been completed and is also presented in the line '*Net fee and commission income*'.

### 3.5.2.3 Net profit/(loss) on financial operations

This line includes net profit/loss on financial operations, which means realised and unrealised gains/losses on securities held for trading; security derivatives; currency, interest rate and trading commodity derivatives; foreign exchange transactions; foreign assets and liabilities retranslation to the functional currency; and realised gains/losses on available-for-sale financial assets.

In this line there is also recognised interest income and expense related to interest-bearing instruments classified as financial assets or financial liabilities at fair value through profit or loss.

### 3.5.3 Cash and cash equivalents

Cash comprises cash on hand and cash in transit.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes. This item also includes obligatory minimum reserves. The Bank can freely transact with the amount of these reserves under the assumption that average obligatory minimum reserves are maintained within the given maintenance period established by the CNB.

In preparing its Statement of Cash Flows for the period, the Bank includes into cash and cash equivalents the cash and current balances with central banks at the beginning and end of the period and current amounts due from and to banks.

### 3.5.4 Fair value and hierarchy of fair value

Fair value is the price that would be received in selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Bank classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of asset or liability measured at fair value. The hierarchy of fair values has the following three levels:

- *Level 1*: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- *Level 2*: inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- *Level 3*: inputs are unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The fair value is included in the hierarchy according to the lowest classified significant input used in its determination. Significant input information is that information which has a significant impact on the total fair value of the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis (i.e. those for which measurement at fair value is required or permitted in the statement of financial position at the end of each reporting period), the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the date of the event or change in circumstances that caused the transfer.

### 3.5.5 Financial instruments

#### 3.5.5.1 Dates of recognition and derecognition

All regular way purchases or sales of financial assets are recognised using settlement date accounting. The settlement (collection) date is the day on which the financial instrument is delivered (cash payment).

When settlement date accounting is applied, the financial asset is recognised in the Statement of Financial Position on the day of receipt of a financial instrument (sending of cash) and derecognised on the day of its delivery (collection of cash).

For financial assets measured at fair value, however, an acquired financial asset is measured to reflect changes in its fair value from the purchase trade date to the purchase settlement date according to its categorisation into an individual portfolio (i.e. either in profit or loss or in other comprehensive income).

All purchases and sales of financial instruments that do not meet the “regular way” settlement criterion in the marketplace concerned are treated as financial derivatives. The Bank recognises financial derivatives in the Statement of Financial Position at the trade date. Financial derivatives are derecognised at their maturity.

The Bank recognises a financial liability in the Statement of Financial Position when it becomes a party to the contractual provisions of the instrument and it is removed from the Statement of Financial Position when it is extinguished (i.e. in circumstances where a contractually defined obligation is fulfilled, cancelled or expires).

#### 3.5.5.2 Initial measurement of financial assets and financial liabilities

When a financial asset or financial liability is initially recognised, the Bank measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of that instrument.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received).

The transaction costs include mainly fees and commissions paid to brokers, dealers and agents.

Also, financial guarantee contracts issued are initially recognised at fair value, being the premium received, in the Statement of Financial Position in the line ‘*Accruals and other liabilities*’. The guarantees are subsequently measured as of the financial statements date at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in profit or loss (in the Statement of Financial Position in the line ‘*Accruals and other liabilities*’), and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee (in the Statement of Financial Position in the line ‘*Provisions*’). The premium received is recognised in the Statement of Income in the line ‘*Net fee and commission income*’ on a straight-line basis over the life of the guarantee. The creation of provisions is recognised in the Statement of Income in the line ‘*Allowances for loan losses*’.

#### 3.5.5.3 “Day 1” profit or loss

In determining whether fair value at initial recognition equals the transaction price, the Bank takes into account factors specific to the transaction and to the asset or liability.

The Bank trades no financial instruments on an inactive market. On active markets, the Bank trades financial instruments only for the quoted price in the active market. For this reason, there is no difference between the transaction price and the fair value of the financial asset or financial liability that is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique whose variables include only data from observable markets (a “Day 1” profit or loss).

#### 3.5.5.4 Financial assets and liabilities classification and subsequent measurement

Financial assets and liabilities held by the Bank are classified upon initial recognition into appropriate portfolios of financial instruments in accordance with the characteristics of a given instrument, the Bank’s intention as of the acquisition date, and pursuant to the Bank’s financial instrument investment strategy as follows:

- I. Financial assets and liabilities at fair value through profit or loss;
- II. Held-to-maturity investments;
- III. Loans and receivables;
- IV. Available-for-sale financial assets; or
- V. Financial liabilities at amortised cost.

The Bank does not make use of an option to designate a financial asset or liability upon initial recognition as a financial instrument at fair value through profit or loss (the so-called “Fair Value Option”).

**(i) Financial assets and liabilities at fair value through profit or loss**

The Bank designates as financial assets at fair value through profit or loss securities held for trading and derivatives that are assets (i.e. financial instruments acquired by the Bank for the purpose of generating a profit from short-term fluctuations in prices). These financial assets are recognised in the Statement of Financial Position in the line *'Financial assets at fair value through profit or loss'*.

Securities designated as held for trading include equity and debt securities, treasury bills, bills of exchange and participation certificates. The trading derivative financial instruments used by the Bank include currency and commodity forwards, currency and interest rate swaps, derivatives on securities and emission allowances and options.

Financial liabilities at fair value through profit or loss include liabilities from securities sold and trading derivatives that are liabilities and are recognised in the Statement of Financial Position in the line *'Financial liabilities at fair value through profit or loss'*.

Unrealised gains and losses, as well as realised gains and losses arising from the fair value measurement of financial assets and liabilities, interest and dividends are recognised as income in the Statement of Income in the line *'Net profit/(loss) on financial operations'*. These financial assets are not tested for impairment because the change of fair value is recognised directly in profit or loss.

**(ii) Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intent and ability to hold to maturity and which do not meet the definition of loans and receivables (i.e. are quoted on an active market).

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any impairment loss through the use of an allowance account. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are integral components of the effective interest rate. The amortisation is included in *'Interest income and similar income'* in the Statement of Income. When an impairment of assets is identified, the Bank recognises allowances in the Statement of Income in the line *'Allowance for impairment of securities'*.

If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than due to an isolated event that is beyond the Bank's control, which is non-recurring and could not reasonably have been anticipated by the Bank due to a significant decrease of a client's credit-worthiness, changes in tax laws, major business combination or major disposition (including sale of a segment), changes in legislative requirements, a significant increase in regulatory capital requirements or significant increase in risk weights for held-to-maturity investments to calculate the capital adequacy), the entire portfolio would have to be reclassified as *'Available-for-sale financial assets'*. Furthermore, the Bank would be prohibited from classifying any financial asset as *'Held-to-maturity investments'* for the following two years.

**(iii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

- Assets that the Bank intends to sell immediately or in the near term, which are classified as held for trading, as well as those that the Bank upon initial recognition designates as at fair value through profit or loss;
- Assets that the Bank upon initial recognition designates as available-for-sale; or
- Assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration (e.g. asset-backed securities or a fixed rate, interest-only strip created in a securitisation and subject to prepayment risk), which are classified as available-for-sale financial assets or as financial assets at fair value through profit or loss.

Loans and receivables are subsequently measured at amortised cost using the effective interest rate method less any impairment loss through the use of an allowance account. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are integral components of the effective interest rate. The amortisation is included in the line *'Interest income and similar income'* in the Statement of Income. When impairment of assets is identified, the Bank recognises allowances in the Statement of Income in the line *'Allowance for loan losses'*.

Financial assets designated as loans and receivables are reported in the Statement of Financial Position in the line *'Amounts due from banks'* or in the line *'Loans and advances to customers'*, as appropriate for the type of debtor.

**(iv) Available-for-sale financial assets**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity investments. This portfolio comprises equity securities and debt securities, asset-backed securities and participation certificates.

Available-for-sale financial assets are subsequently measured at fair value and at the end of each reporting period tested to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. Unrealised gains or losses from the fair value measurement of these assets are recognised within Other Comprehensive Income in the line '*Net value gain/(loss) on available-for-sale financial assets, net of tax*' until their sale, maturity or impairment as well as fair value changes arising from changes in foreign exchange rates. Gains or losses from changes in foreign exchange rates on debt instruments are recognised in the Statement of Income in the line '*Net profit/(loss) on financial operations*', except that exchange rate gains or losses related to fair value revaluation are recognised within Other Comprehensive Income. When the available-for-sale financial asset is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Income in the line '*Net profit/(loss) on financial operations*'.

Accrued interest income for debt securities is recognised in the Statement of Income line '*Interest income and similar income*'. Dividend income arising from equity securities is recognised when the right for dividends is established and reported in the Statement of Income in the line '*Dividend income*'.

**(v) Financial liabilities at amortised cost**

Financial liabilities at amortised cost include non-derivative financial liabilities with fixed or determinable payments and are recognised according to the type of counterparty in the lines '*Amounts due to central banks*', '*Amounts due to banks*', '*Amounts due to customers*', '*Securities issued*' and '*Subordinated debt*'.

Financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Income in the line '*Interest expense and similar expense*'.

In the event of the repurchase of its own debt securities, the Bank derecognises these securities (i.e. the item '*Securities issued*' is decreased). Gains and losses arising as a result of repurchasing the Bank's own debt securities are recognised as of the date of their repurchase in the Statement of Income in the line '*Net interest income*' as an adjustment to the interest paid from its own bonds.

**3.5.5.5 Reclassification of financial assets**

The Bank does not reclassify any financial assets after initial recognition into the '*Financial assets at fair value through profit or loss portfolio*'. In rare circumstances, if non-derivative financial assets at fair value through profit or loss are no longer held for the purpose of selling or repurchasing in the short term, the financial assets may be reclassified out of the portfolio and be classified into the '*Available-for-sale financial assets*', or '*Held-to-maturity investments*' portfolio.

The Bank may also reclassify a non-derivative trading asset out of the '*Financial assets at fair value through profit or loss*' portfolio and into the '*Loans and receivables*' portfolio if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. In certain rare circumstances, the Bank may also reclassify financial assets out of the '*Available-for-sale financial assets*' portfolio and into the '*Loans and receivables*' portfolio if they meet the definition of loans and receivables and the Bank has the intention and ability to hold the financial assets for the foreseeable future or until maturity. Fixed income securities quoted on an active market can be reclassified out of the '*Available-for-sale financial assets*' portfolio and into the '*Held-to-maturity investments*' portfolio if the Bank's intention or ability to hold these securities has changed or upon expiry of the deadline during which securities were not permitted to be classified as securities held-to-maturity. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

The Bank may reclassify financial assets or a significant amount out of the '*Held-to-maturity investments*' portfolio into the '*Available-for-sale financial assets*' portfolio or '*Loans and receivables*' portfolio, doing so without triggering the so called "tainting rules", in cases when the given assets are near to maturity, the Bank has received almost the entire original principal of the given financial asset or there has occurred a unique and exceptional event that is outside of the Bank's control and the Bank could not have expected it. Such unique cases include in particular a significant decrease of a client's creditworthiness, changes in tax laws or in legal requirements, a business combination or the sale of a part of the business (segment), a significant increase in regulatory capital requirements or a significant increase in risk weights for held-to-maturity investments used in calculating the capital adequacy.

For a financial asset reclassified out of the '*Available-for-sale financial assets*' portfolio, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flow is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to profit or loss. Reclassification is at the election of management and is determined on an instrument-by-instrument basis.

**3.5.5.6 Determination of a financial instrument's fair value and its hierarchy**

For the determination and categorisation of a financial instrument's fair value, the Bank treats a security as quoted if quoted market prices are readily and regularly available from a stock exchange, dealers, securities traders, industrial groups, valuation services or regulatory authorities and if these prices represent current and regular market transactions under ordinary conditions.

If there are no quoted prices in an active market for the financial asset, the Bank uses other values that are observable, directly or indirectly, from the markets for its measurement, such as:

- I. Quoted prices for similar assets or liabilities in active markets;
- II. Quoted prices for identical or similar assets or liabilities in markets that are not active (i.e. there are few recent transactions, prices quotations are not based on current information, etc.);
- III. Inputs other than quoted prices (e.g. inputs based on interest rates, yield curves, implied volatilities, credit spreads, etc.); or
- IV. Inputs derived principally from, or corroborated by, observable market data.

Where the inputs for the determination of a financial instrument's fair value are not observable in a market due to the fact that there is no or only minimal activity for that asset or liability, the Bank uses for fair value measurement inputs that are available but not directly observable within a market and which in the Bank's view reflect assumptions that market participants take into account when pricing the financial instrument.

The fair value of debt securities for which an observable market price is not available is estimated using an income approach (the present value technique taking into account the future cash flows that a market participant would expect to receive from holding the instrument as an asset) and the fair value of unquoted equity instruments is estimated using an income approach or market approach (using prices and other relevant information generated by a market). The fair values of financial derivatives are obtained from quoted market prices, discounted cash flow models or option pricing models and they are adjusted for the credit risk of the counterparty or the Bank's own credit risk, as appropriate.

The existence of published price quotations in an active market is normally the best evidence of fair value. The appropriate quoted market price for an asset held or liability to be issued is usually the current bid price and for an asset to be acquired or liability held the asking price.

The Bank manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk. It uses mid-market prices as the basis for establishing fair values for the offsetting risk positions and applies the bid or asking price to the net open position as appropriate.

When measuring the fair value of a financial asset or group of financial assets, the Bank incorporates into the valuation an adjustment for the risk of default of the counterparty, a so called credit valuation adjustment (CVA).

#### **3.5.5.7 Effective interest rate method**

The effective interest rate is the rate which exactly discounts the estimated future cash payments or receipts through the expected life of a financial instrument.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument and includes any fees and incremental costs that are directly attributable to the instrument and constitute an integral component of the effective interest rate, but it does not take into consideration future credit losses.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period.

#### **3.5.5.8 Forborne loans**

Forborne exposures are debt contracts in respect of which forbearance measures have been granted to the debtor and for which the discontinuation conditions are not met. Forbearance measures consist of concessions to a debtor facing or about to face difficulties in meeting its financial commitments. The concession refers to either modification of terms and conditions (e.g. changes in payment schedule, interest rate reductions, penalty interest waivers) or refinancing. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms. Renegotiated loans are continuously reviewed by the Bank to ensure that all criteria are met and that future payments are likely to occur. The renegotiated loans continue to be subject to impairment assessment, calculated based on their future cash flows discounted by the loans' original effective interest rates.

#### **3.5.5.9 Impairment of financial assets**

At the end of each reporting period, the Bank assesses on a regular basis whether there is any objective evidence that a financial asset or group of financial assets is impaired, the only exception being securities at fair value through profit or loss.

Objective evidence that a financial asset or group of assets is impaired includes observable evidence that comes to the attention of the Bank and proving the significant deterioration of a debtor's (issuer's) financial health, breach of contract (default in interest or principal payment), high probability of bankruptcy or other financial reorganisation, or proving a measurable decrease in the estimated future cash flow due to adverse changes in industry conditions.



In addition to the aforementioned events, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, economic or legal environment in which the issuer operates and significant or prolonged decline in the fair value of the instrument below its cost. The determination of what constitutes a significant or prolonged decline is a matter of circumstances that requires application of the Bank management's judgement. As indicators of possible significant or prolonged decline, the Bank regards unrealised loss in respect of instrument acquisition cost or the fact that the quoted price of the instrument has been below its carrying amount during every trading date for several months. Furthermore, the Bank considers the business model and strategy related to the instrument and supportive indicators as the financial situation of the issuer and its development perspective or regulatory requirements.

If there is objective evidence that an impairment loss on a financial instrument has been incurred, the Bank calculates an impairment loss and recognises it in the respective item in the Statement of Income.

For a financial asset classified in portfolios carried at amortised cost (i.e. *'Held-to-maturity investments'* and *'Loans and receivables'* portfolios), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flow discounted at the financial asset's original effective interest rate. Estimations of future cash flows for loans are based on expected cash flows from the economic activities of the client and the possible realisation of loan collateral.

The Bank uses one of three methods to assess the amount of allowances (refer to Note 42(A)). For larger, individually significant loans classified as default (Substandard, Doubtful and Loss loans based on the Czech National Bank's classification), the allowances are assessed on an individual basis requiring management to monitor the borrower's repayment abilities individually, including the estimated value from the collateral foreclosure and expected duration of the recovery process, etc. These allowances are calculated using discounted expected future cash flows.

For smaller, individually not significant impaired loans where the loans are homogeneous in nature (for example the consumer and mortgage loans to individuals and smaller corporate portfolios), the allowances are calculated by models using historical delinquency statistics.

Portfolio allowances are calculated for losses that have been incurred but have not been identified. Portfolio allowances are held against non-impaired loans across all segments and calculated using models based on probabilities of default and loss given default until the impairment event occurs and individual or model allowances for impaired loans are recognised.

Historical loss experience is adjusted on the basis of currently observable data to reflect new loss observations and to have better discrimination ability (i.e. to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently). The methodology and assumptions used for estimating the future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying amount of an asset is reduced through the use of an allowance account, the creation of which is recognised in the Statement of Income in the line *'Allowance for loan losses'* or *'Allowance for impairment of securities'*. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is correspondingly reversed.

When it can be reasonably anticipated that clients will be unable to fulfil their obligations to the Bank in respect of such loans, loss loans are written off and recognised in the Statement of Income in the line *'Allowance for loan losses'*. Subsequent recoveries are credited to the Statement of Income in *'Allowance for loan losses'* if previously written off. If the Bank collects an amount greater than that written off subsequent to the write-off of the loan, the difference is reported through *'Interest income and similar income'*.

For *'Available-for-sale financial assets'* and in the case of objective evidence of their impairment, a cumulative loss that had been recognised in Other Comprehensive Income is reclassified to the Statement of Income and recognised in the line *'Allowance for impairment of securities'* for debt instruments and in the line *'Net profit/(loss) on financial operations'* for equity instruments. The amount of the loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in the Statement of Income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Statement of Income, the impairment loss is reversed, with the amount of the reversal recognised in the Statement of Income. The Bank cannot reverse any impairment loss recognised in the Statement of Income for an equity instrument.

### 3.5.5.10 Repurchase agreements

The Bank accounts for contracts to sell and buy back financial instruments (so-called "repos" or "reverse repos") based on their substance as the receiving or granting of a loan with a corresponding transfer of financial instruments as collateral.

Under repurchase transactions ("repos"), the Bank only provides securities held in the portfolio of *'Financial assets or financial liabilities at fair value through profit or loss'* or in the *'Available-for-sale financial assets'* portfolio that are recorded in the Statement of Financial Position in the same lines. The corresponding liability arising from a loan received is recognised in the line *'Amounts due to banks'* or *'Amounts due to customers'*, as appropriate.



Securities purchased under reverse repurchase agreements (“reverse repos”) are recorded in the off-balance sheet, where they are remeasured at fair value. The corresponding receivable arising from the provided loan is recognised as an asset in the Statement of Financial Position according to the counterparty type in the line ‘*Amounts due from banks*’ or ‘*Loans and advances to customers*’.

The Bank is allowed to provide securities received in reverse repo transactions as collateral or sell them even in the absence of default by their owner. These securities continue to be recorded in the off-balance sheet and measured at fair value. The corresponding liability arising from the loan received is included in ‘*Amounts due to banks*’ or ‘*Amounts due to customers*’, as appropriate. The Bank has the obligation to return these securities to its counterparties.

The differences between the sale and repurchase prices in respect of repo and reverse repo transactions are treated by the Bank as interest, and it is accrued evenly to expenses and income over the life of the repo agreement using the effective interest rate method.

In regard to the sale of a security acquired as collateral under a reverse repo transaction, the Bank derecognises from the off-balance sheet evidence the security acquired under the reverse repo transaction and recognises in the Statement of Financial Position an amount payable from a short sale that is remeasured at its fair value. This payable is included in ‘*Financial liabilities at fair value through profit or loss*’.

#### **3.5.5.11 Derivatives and hedge accounting**

A derivative is a financial instrument or other contract having all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other market variable;
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- It is settled at a future date.

At the inception of a financial derivative contract, the Bank designates the derivative instrument as either held for trading or hedging.

Held for trading derivatives are classified into a portfolio of ‘*Financial assets or financial liabilities at fair value through profit or loss*’ based on whether the fair value is positive or negative (refer to 3.5.5.4 Financial assets and liabilities classification and subsequent measurement).

Hedging derivatives are derivatives that the Bank uses to hedge against interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. The Bank designates a derivative as hedging only if the criteria set out under IFRS are met at the designation date, i.e. if, and only if, all of the following conditions are met:

- There is compliance with the Bank’s risk management objective and strategy in undertaking the hedge;
- At inception of the hedge there is formal designation and documentation of the hedging relationship which includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk;
- The hedge is expected to be highly effective at inception and throughout the period;
- The effectiveness of the hedge can be reliably measured; and
- Changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

Hedging derivatives are accounted for according to the type of hedging relationship, which can be one of the following:

- I. Hedging of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment that is attributable to a particular risk and that could affect profit or loss (fair value hedge); or
- II. Hedging of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss (cash flow hedge); or
- III. Hedging of a net investment in a foreign operation.

Changes in the fair value of a derivative that is designated and qualified as a fair value hedge are recognised in the Statement of Income line ‘*Net profit/(loss) on financial operations*’. Changes in the fair value of a hedged item are recognised in the Statement of Financial Position as a component of the carrying amount of the hedged item and in the Statement of Income line ‘*Net profit/(loss) on financial operations*’.

It is on this basis that the Bank hedges the interest rate risk and foreign currency risk of financial assets (loans with fixed interest rates and debt instruments classified as available-for-sale) and interest rate risk of deposits, repos and mortgage bonds issued. The effectiveness of a hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation and an adjustment to the carrying amount of the hedged interest-bearing financial instrument is amortised to profit or loss over the period until the maturity of the hedged item.

In connection with the reclassification of certain debt securities from the 'Available-for-sale financial assets' portfolio and into the 'Held-to-maturity investments' portfolio, the Bank revoked the designation of respective interest rate swaps as fair value hedges and prospectively classifies them as a cash flow hedge of interest rate risk associated with selected portfolios of assets or liabilities.

The Bank accounts also for portfolio fair value hedges (hedging transactions concerning portfolios of financial assets or liabilities), for which interest rate swaps are used. When accounting for these transactions, the Bank applies the IAS 39 "carve-out", as adopted by the European Union. The accounting treatment of financial derivatives designated as portfolio fair value hedges is similar to that of other fair value hedging derivatives.

Changes in the fair value of hedging derivatives classified as cash flow hedges and that prove to be highly effective in relation to the hedged risks are recognised in the line 'Cash flow hedging' in Other Comprehensive Income and they are transferred to the Statement of Income and classified as income or expense in the periods during which the hedged items affect the Statement of Income. The ineffective portion of a hedge is charged directly to the Statement of Income in the line 'Net profit/(loss) on financial operations'.

It is on this basis that the Bank hedges the interest rate risk and currency risk associated with selected portfolios of assets or liabilities or individually significant assets or liabilities. The effectiveness of a hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation and the cumulative gain or loss on the hedging instrument that has been recognised in Other Comprehensive Income for the period when the hedge was effective remains in equity until the forecast transaction occurs.

If the forecast transaction is no longer expected to occur, the gain or loss accumulated as other comprehensive income is reclassified to profit or loss.

The Bank additionally hedges against the foreign exchange rate risk arising from the net investment in the subsidiaries Bastion European Investments S.A. and PSA FINANCE SLOVAKIA, s.r.o. Foreign currency deposits are used as a hedging instrument. Foreign exchange rate differences arising from its retranslation are included in Other Comprehensive Income.

Financial derivatives constituting economic hedges under the Bank's risk management positions but not qualifying for hedge accounting under the specific rules of IAS 39 are treated as derivatives held for trading.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 42(C).

### 3.5.5.12 Embedded derivatives

In some cases, a derivative, such as an option for an earlier redemption of a bond, is a component of a hybrid (combined) financial instrument that also includes a non-derivative host contract. The embedded derivative is separated and accounted for as a derivative if, and only if, all of the following conditions are met:

- The embedded derivative as a separate instrument meets the definition of a derivative;
- The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract; and
- The host contract is not measured at fair value with fair value changes recognised in the Statement of Income.

### 3.5.6 Assets held for sale

The line 'Assets held for sale' represents assets for which the Bank expects that their carrying amounts will be recovered principally through sale transactions rather than through continuing use. These assets are available for immediate sale in their present condition, they are actively marketed for sale at a price that is reasonable in relation to their current fair value, and their sale is highly probable, that is to say that a plan to sell and leading to the location of a buyer has been initiated. The Bank expects that the sale of assets will be completed, the market situation permitting, within one year from the date of the assets classification as 'Assets held for sale'.

Assets held for sale are measured at the lower of:

- The carrying amount of the respective asset at the date of its classification as 'Assets held for sale'; or
- Fair value less estimated costs to sell (e.g. cost of expert valuation reports, legal or financial advisory services, the estimates of which are based on historical experience, as well as real estate transfer tax for real estate).

Assets designated as 'Assets held for sale' are no longer depreciated.

The Bank recognises an impairment loss on assets held for sale in the line '*Net profits on other assets*' if their selling price less estimated costs to sell is lower than their carrying value. Any subsequent increase in the selling price less costs to sell is recognised as a gain but not in excess of the cumulative impairment loss that has been recognised either during the time when the assets were classified as held for sale or before their reclassification into the line '*Assets held for sale*' (i.e. during the period when the asset had been held for supplying the Bank's services or for administrative purposes).

### **3.5.7 Income tax**

#### **3.5.7.1 Current income tax**

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those valid as of the Statement of Financial Position date.

Current income tax is recognised in the Statement of Income, or, as the case may be, in the Statement of Other Comprehensive Income if it relates to an item directly taken into other comprehensive income.

The Bank does not set off current tax assets and current tax liabilities unless it has a legally enforceable right to set off the recognised amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

#### **3.5.7.2 Deferred income tax**

Using the balance sheet liability method, deferred income tax is recorded for temporary differences arising between the tax bases of assets and liabilities and their carrying values presented in the Statement of Financial Position. Deferred income tax is determined using tax rates valid or substantially enacted for the periods in which the Bank expects to realise the deferred tax asset or to settle the deferred tax liability. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the tax asset can be used.

Deferred income tax is recognised in the Statement of Income, or, as the case may be, in the Statement of Other Comprehensive Income if it relates to an item directly taken into other comprehensive income (such as deferred income tax related to changes in the fair value of available-for-sale financial assets or in relation to a cash flow hedge).

The Bank offsets deferred income tax assets and deferred income tax liabilities only if it has a legally enforceable right to set off current tax assets against current tax liabilities and deferred tax assets and deferred tax liabilities relate to income tax levied by the same taxation authority and relate to the same taxable entity.

The largest temporary differences relate to tangible and intangible assets, loans and receivables, hedging derivatives and available-for-sale financial assets.

### **3.5.8 Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### The Bank as lessor

##### **Operating leases**

The Bank presents assets that are the subject of an operating lease in the appropriate lines within the Statement of Financial Position according to the nature of those assets and uses for them accounting policies applied to the relevant asset class.

Leasing payments received from operating leases are recognised as the Bank's income on a straight-line basis over the term of the relevant lease and this income is presented in the line '*Other income*'.

##### **Finance leases**

When assets held are subject to a finance lease, the net investment in the lease is recognised as '*Loans and advances to customers*' while the assets themselves are not recognised. The difference between the gross receivable and the present value of the receivable is recognised as deferred interest income.

Lease income is recognised over the term of the lease, reflecting a constant periodic rate of interest on the remaining balance of the receivable, and it is presented in the line '*Interest income and similar income*'.

#### The Bank as lessee

##### **Operating leases**

Lease payments under an operating lease are recognised on a straight-line basis over the lease term and are presented in the line '*General and administrative expenses*'. Possible penalty payments due to the early termination of a lease are recognised in the reporting period in which the lease was terminated.

### Finance leases

At the commencement of a lease term, an asset held under a finance lease is recognised in the appropriate line within the Statement of Financial Position in accordance with the nature of the asset and simultaneously a liability is recognised in an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Subsequently, the Bank uses the same accounting policies for these assets as for its own property presented in the same line as the leased asset. If the legal ownership of the asset held under finance lease is not transferred to the lessee by the end of the lease term, however, the asset is depreciated on a straight-line basis over the lease term.

The Bank divides lease payments between amortisation recognised as the reduction of the outstanding liability and a finance charge recognised in the Statement of Income as *'Interest expense and similar expense'*. The finance charge is allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability during the entire lease period.

### 3.5.9 Tangible and intangible assets

Intangible assets include principally software and internally generated intangible assets (mainly software). Tangible assets include plant, property and equipment that are used by the Bank in supplying its services and for administrative purposes and that are used for longer than one reporting period.

Tangible and intangible assets are measured at the historical acquisition cost less accumulated impairment losses (allowances) and, in the case of depreciated assets, less accumulated depreciation and increased by technical improvements. The historical acquisition cost comprises the purchase price and any costs directly attributable to asset acquisition such as delivery and handling costs, installation and assembly costs, advisory fees, and administrative charges. The acquisition cost of internally generated intangible assets comprises external expenses and internal personnel expenses related to an internal project's development phase. The Bank capitalises no expenses related to the research phase.

Tangible and intangible assets are depreciated from their acquisition costs on a straight-line basis over their useful lives. Cars under finance leases are depreciated from acquisition cost less estimated residual value, which is determined on the basis of the purchase price following expiration of the lease as established in the lease contract. The Bank assumes no residual value for other assets. Depreciation and amortisation are reported in the Statement of Income on the line *'Depreciation, amortisation and impairment of operating assets'*.

The Bank does not depreciate land and works of art. Tangible and intangible assets in the course of construction and technical improvements are depreciated only once they have been brought into a condition fit for use.

*During the reporting period, the Bank used the following useful lives in years:*

	2017	2016
Machinery and equipment	4	4
Information technology – notebooks, servers	4	4
Information technology – desktop computers	6	6
Fixtures, fittings and equipment	6	6
Vehicles	5	5
ATMs	10	10
Selected equipment of the Bank	8	8
Energy machinery and equipment	12/15	12/15
Distribution equipment	20	20
Buildings and structures	40	40
Buildings and structures – selected components:		
– Heating, air-conditioning, windows, doors	20	20
– Lifts, electrical installations	25	25
– Facades	30	30
– Roofs	20	20
– Other components	15	N/A
– Residual value of buildings and technical improvements without selected components	50	50
Technical improvements on leasehold assets	According to the lease term	According to the lease term
Intangible results of development activities (assets generated internally as component of internal projects)	According to the useful life, typically 5	According to the useful life, typically 5
Licences – software	5	5
Other rights of use	According to contract	According to contract

At the end of each reporting period, the Bank assesses whether there exists any indication that a tangible or intangible asset can be impaired. Indicators of possible impairment include information about a significant decline in an asset's market value, significant changes within the technological, market, economic or legal environment, obsolescence or physical damage to an asset, or change in the manner in which the asset is used. Where any such indicator exists, the Bank estimates the recoverable amount of the asset concerned (i.e. the higher amount of its fair value less costs to sell in comparison with the asset's carrying value). If the asset's carrying amount is greater than its recoverable amount, the Bank reduces its carrying amount to its recoverable amount and presents the recognised impairment loss in the line '*Depreciation, amortisation and impairment of operating assets*'.

Repairs and maintenance are charged directly to the Statement of Income when they occur.

### 3.5.10 Provisions

Provisions are recognised when and only when:

- The Bank has a present obligation (legal or constructive) as a result of a past event;
- It is probable that settlement of the obligation will cause an outflow of resources causing a decrease of economic benefits; and
- A reliable estimate can be made of the amount of the obligation. Provisions for legal disputes are estimated on the basis of the amount sought by the plaintiff, including accrued interest and fees.

Provisions are measured as the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. The discount rate is a pre-tax rate reflecting current market assessments and the risks specific to the liability. Provision increases related to the passage of time are recognised as interest expense.

Among others, the Bank recognises provisions for credit-related commitments which do not meet the criteria for recognition in the Statement of Financial Position. These provisions cover estimated losses from credit-related commitments into which the Bank enters in the normal course of its business and that are recorded in the off balance sheet. These commitments include primarily guarantees, avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments, and approved overdraft loans. Provisions for credit-related commitments are created on the same basis as are allowances for loan portfolios (refer to Note 32).

### 3.5.11 Employee benefits

#### 3.5.11.1 General

The Bank provides its employees with retirement benefits and disability benefits. The employees are entitled to receive retirement or disability benefits if they are employed by the Bank until their retirement age or if they are entitled to receive a disability pension but only if they were employed within the Bank for a minimum defined period.

Estimated benefit costs are recognised on an accruals basis through a provision over the employment term using an accounting methodology that is similar to the methodology used in respect of defined benefit pension plans. In determining the parameters of the model, the Bank refers to the most recent employee data (the length of employment with the Bank, age, gender, average salary) and estimates made on the basis of monitored historical data about the Bank's employees (expected reduction of the current staffing levels) and other estimates (the amounts of bonuses, anticipated increase in salaries, estimated amounts of social security and health insurance contributions, discount rate).

These provisions are presented in the line '*Provisions*'. The changes in provisions are disaggregated into three components that are presented as follows:

- I. Service cost (i.e. additional liability that arises from employees providing service during the period) is presented in the line '*Personnel expenses*';
- II. The interest expense on the net benefit liability is presented in the line '*Personnel expenses*'; and
- III. Other changes in the value of the defined benefit obligation, such as changes in estimates, are presented within Other Comprehensive Income in the line '*Remeasurement of retirement benefits plan, net of tax*'.

The use of a provision is presented in the line '*Personnel expenses*'.

The Bank additionally provides short-term benefits to its employees, such as contributions to retirement pension insurance and capital life insurance schemes. The Bank recognises the costs of these contributions as incurred in the line '*Personnel expenses*' (refer to Note 9).

The Bank has the following share plans and deferred compensation schemes:

### 3.5.11.2 Deferred bonus payments

In accordance with European regulation (Capital Requirements Directive III; No. 2010/76/EU), the Bank implemented a new compensation scheme for employees whose professional activities have a material impact on the Bank's risk profile. For employees identified in accordance with the CRD III regulation, performance-linked remuneration is split into two components: (i) a non-deferred component that is paid in the following year; and (ii) a deferred component that is spread over three years. The amounts of the two components are further split into bonuses paid in cash and bonuses paid in cash equivalent of the Société Générale S.A. share price or in cash equivalent of the Komerční banka, a.s. share price (indexed bonuses). Both bonuses are subject to presence and performance conditions:

- In the case of bonuses paid in the cash equivalent of the Société Générale S.A. share price, the performance condition is based on the profitability of the Société Générale Group;
- In the case of bonuses paid in cash and bonuses paid in cash equivalent of the Komerční banka, a.s. share price, the performance condition is based on the profitability of the Komerční banka Group. Moreover, for investment banking employees there is the condition that the Bank's net investment banking operating income be higher than zero.

Indexed bonuses qualify as cash-settled share-based transactions. The liability is measured at the end of each reporting period until settled at the fair value of the shares of Société Générale S.A. or Komerční banka, a.s. multiplied by numbers of shares granted and it is spread over the vesting period.

The amount of bonuses finally vested is calculated as the number of Société Générale S.A. shares or Komerční banka, a.s. shares multiplied by their price fixed as the volume-weighted average of the last 20 closing trading prices prior to the first business day following the end of the applicable retention period.

Deferred cash bonuses (i.e. bonuses paid to employees more than 12 months after the end of the reporting period in which the employees render the related services) are considered as long-term employee benefits and the related expense is recognised over the vesting period in the line '*Personnel expenses*'.

### 3.5.11.3 Free share plan

In November 2010, the Bank awarded all its employees rights to 40 free shares of Société Générale S.A. upon the achievement of two performance conditions and completing a specific period of employment. The allotment of the shares proceeded in two tranches: on 31 March 2015 and on 31 March 2016.

To enhance loyalty and motivation to contribute to long-term growth in the value of the Société Générale Group, the Bank can award some of its key employees further free shares (deferred share plan). These free shares are subject to a vesting condition (i.e. presence in the Group at the end of vesting period, which is 4 years) and for certain beneficiaries are also subject to the condition that Société Générale Group records positive net income.

Expenses related to the free share and deferred share plans provided by Société Générale to the Bank's employees are recognised in the Bank's financial statements as equity-settled share-based payment transactions. The fair value of these instruments, measured using the arbitrage model at the granting date, is spread over the vesting period and recorded in the lines '*Personnel expenses*' and '*Share premium and reserves*' under equity. At the end of each accounting period, the number of these instruments is adjusted in order to take into account performance and service conditions and adjust the overall cost of the plan as originally determined. Expenses recognised under the '*Personnel expenses*' from the start of the plan are then adjusted accordingly.

## 3.5.12 Share capital

### Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity at the time they are approved by the Bank's shareholders.

### Treasury shares

When the Bank acquires its own equity instruments, the consideration paid, and including any attributable transaction costs, is recognised as a deduction from the line '*Share premium and reserves*' under equity. Gains and losses on sales of treasury shares are recognised in equity and presented as well in the line '*Share premium and reserves*'.

## 3.5.13 Contingent assets, contingent liabilities and off-balance sheet items

In addition to transactions giving rise to recognition of assets and liabilities in the Statement of Financial Position, the Bank enters into transactions through which it generates contingent assets and liabilities. The Bank maintains contingent assets and liabilities as off-balance sheet items. The Bank monitors these transactions inasmuch as they constitute a substantial proportion of its activities and materially impact the level of risks to which the Bank is exposed (they may increase or decrease other risks, for instance, by hedging assets and liabilities reported in the Statement of Financial Position).



A contingent asset or liability is defined as a possible asset or liability that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly under the Bank's control.

A contingent liability also exists in the case of a present obligation where an outflow of resources embodying economic benefits probably will not be required to settle the obligation or the amount of the obligation cannot be measured reliably. Contingent liabilities include, for example, irrevocable loan commitments, commitments arising from bank guarantees, bank acceptances, letters of credit and warrants.

In addition to contingent assets and contingent liabilities, the off-balance sheet includes assets arising from valuables and securities custody and fiduciary activities and related obligations to return these to customers (e.g. assets under management).

Off-balance sheet items include also nominal values of such interest and foreign currency instruments as forwards, swaps, options and futures. More information regarding derivative operations is presented in note 3.5.5.11 Derivatives and hedge accounting.

#### **3.5.14 Operating segments**

Operating segments are reported in accordance with internal reports regularly prepared and presented to the Bank's Board of Directors, which is considered the "chief operating decision maker" (i.e. a person or group of persons that allocates resources and assesses the performance of individual operating segments of the Bank).

The Bank has the following operating segments:

- *Retail Banking*: includes the provision of products and services to individuals (i.e. predominantly current and savings accounts, term deposits, overdrafts, credit card loans, personal loans and mortgages);
- *Corporate Banking*: includes the provision of products and services to corporate entities (i.e. current accounts, term deposits, revolving loans, business loans, mortgages, foreign currency and derivative products, syndicated and export financing, and guarantee transactions);
- *Investment Banking*: involves trading in financial instruments; and
- *Other*: consists of the head office of the Bank.

The Investment Banking segment does not reach quantitative limits for obligatory reporting. The management of the Bank nevertheless believes that the information concerning this segment is useful for users of the Financial Statements and thus reports this segment separately.

As the principal activity of the Bank is the provision of financial services, the Board of Directors of the Bank assesses the performance of operating segments predominantly according to net interest income. For this reason, interest income and interest expense of individual operating segments are not reported separately but on a net basis.

In addition, the Bank monitors net fee and commission income, net profit/(loss) on financial operations, and other income predominantly including income from the lease of non-residential premises by segments. Other profit and loss items are not monitored by operating segments.

The Bank does not monitor total assets or total liabilities by segment.

The information on the items of net operating income is provided to the Board of Directors of the Bank using valuations identical to those stated in the Bank's financial accounting records.

The Bank has no client or group of related parties for which the income from transactions would account for more than 10% of the Bank's total income.

#### **3.5.15 Regulatory requirements**

The Bank is subject to the regulatory requirements of the CNB and other institutions. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments, and creation of allowances to cover credit risk associated with the Bank's clients, as well as with its liquidity, interest rate and foreign currency positions.

### **3.6 Changes in accounting policies**

During the accounting period, there were no changes in accounting policies.

## 4 Segment reporting

	Retail banking		Corporate banking		Investment banking		Other		Total
(CZKm)	2017	2016	2017	2016	2017	2016	2017	2016	2016
Net interest income and similar income	9,965	9,963	5,364	6,544	246	85	3,942	3,979	20,571
Net fee and commission income	3,932	3,797	1,915	2,005	(121)	(40)	127	217	5,979
Net profit/(loss) on financial operations	955	913	1,610	1,432	915	456	90	1,032	3,833
Other income	129	127	54	23	142	116	(49)	(41)	225
<b>Net operating income</b>	<b>14,981</b>	<b>14,800</b>	<b>8,943</b>	<b>10,004</b>	<b>1,182</b>	<b>617</b>	<b>4,110</b>	<b>5,187</b>	<b>30,608</b>

Given the specifics of banking activities, the Board of Directors of the Bank (the chief operating decision maker) is provided with information on income, recognition of allowances, write-offs and income tax only for selected segments rather than consistently for all segments. For this reason, this information is not reported for segments.

As most of the income of segments arises from interest, and, in assessing the performance of segments and deciding on allocation of resources for segments, the Board of Directors primarily refers to net interest income, the interest for segments is reported on a net basis (i.e. reduced by interest expense).

Transfer prices between operating segments are based on transfer interest rates representing actual market interest rate conditions, including a liquidity component reflecting the existing opportunities to acquire and invest financial resources.

The Bank's income is primarily – more than 99% (2016: more than 99%) – generated on the territory of the Czech Republic.

## 5 Net interest income and similar income

*Net interest income and similar income comprise the following:*

(CZKm)	2017	2016
Interest income and similar income	23,189	23,186
Interest expense and similar expense	(5,584)	(5,337)
Dividend income	1,912	2,722
<b>Net interest income and similar income</b>	<b>19,517</b>	<b>20,571</b>
Of which net interest income and similar income from		
– Loans and advances	13,726	13,543
– Available-for-sale financial assets	594	594
– Held-to-maturity investments	1,552	1,651
– Financial liabilities at amortised cost	(1,679)	(1,648)
– Hedging financial derivatives	3,412	3,709
– Dividends	1,912	2,722

'Interest income and similar income' includes interest on Substandard, Doubtful and Loss loans due from customers of CZK 239 million (2016: CZK 276 million).

'Interest income and similar income' also includes accrued interest income from hedging financial derivatives of CZK 7,317 million (2016: CZK 7,399 million) and 'Interest expense and similar expense' includes accrued interest expense from hedging financial derivatives of CZK 3,905 million (2016: CZK 3,690 million). Net interest income from these derivatives amounts to CZK 3,412 million (2016: CZK 3,709 million). Hedging financial derivatives are used to hedge both the fair value and future cash flows.

'Dividend income' includes dividends received from subsidiaries and associates of CZK 1,912 million (2016: CZK 2,722 million). Expenses from hedging financial derivatives used to hedge cash flows from foreign exchange risk for dividends from subsidiaries and associates were CZK 0 million (2016: CZK 0 million).

In both 2017 and 2016, the Bank recorded as part of 'Net interest income and similar income' also negative interest income and expense from selected clients' deposits in selected currencies, from selected repo transactions, loro and nostro accounts, and margin accounts deposited at banks. The total amount recognised is not material.

## 6 Net fee and commission income

*Net fee and commission income comprises the following:*

(CZKm)	2017	2016
Deposit product fee and commission income	711	751
Loan fee and commission income	907	962
Transaction fee and commission income	3,031	3,373
Cross-selling fee income	855	742
Specialised financial services fee and commission income	984	900
Other fee and commission income	117	137
<b>Total fee and commission income</b>	<b>6,605</b>	<b>6,865</b>
Deposit product fee and commission expense	(176)	(156)
Loan fee and commission expense	(101)	(110)
Transaction fee and commission expense	(346)	(529)
Cross-selling fee expense	(12)	(11)
Specialised financial services fee and commission expense	(105)	(62)
Other fee and commission expense	(12)	(18)
<b>Total fee and commission expenses</b>	<b>(752)</b>	<b>(886)</b>
<b>Total net fee and commission income</b>	<b>5,853</b>	<b>5,979</b>

'Net fee and commission income' comprises fee income arising from trust and other fiduciary activities and depository services in the amount of CZK 174 million (2016: CZK 148 million) and fee expense for these services in the amount of CZK 33 million (2016: CZK 23 million).

## 7 Net profit/(loss) on financial operations

*Net profit/(loss) on financial operations comprises the following:*

(CZKm)	2017	2016
Net realised gains/(losses) on securities held for trading	272	(282)
Net unrealised gains/(losses) on securities held for trading	61	(336)
Net realised gains/(losses) on securities available-for-sale	0	959
Net realised and unrealised gains/(losses) on security derivatives*	(276)	780
Net realised and unrealised gains/(losses) on interest rate derivatives	(288)	330
Net realised and unrealised gains/(losses) on trading commodity derivatives	18	23
Net realised and unrealised gains/(losses) on foreign exchange operations	2,590	1,157
Net realised gains/(losses) on foreign exchange from payments	1,193	1,202
<b>Total net profit/(loss) on financial operations</b>	<b>3,570</b>	<b>3,833</b>

\* This line also includes impacts of derivative trades in emission allowances.

For the year ended 31 December 2016, the line '*Net realised gains/(losses) on securities available-for-sale*' includes the net gain from the sale of an equity stake in Visa Europe Limited in the amount of CZK 959 million (refer to Note 18).

A loss of CZK 208 million (2016: loss of CZK 230 million) on the fair value of interest rate swaps for interest rate risk hedging is included in '*Net realised and unrealised gains/(losses) on interest rate derivatives*'. This amount matches the loss arising from revaluation of hedged loan receivables, available-for-sale financial assets, deposits or repos and issued mortgage bonds reported in the same line.

## 8 Other income

The Bank reports '*Other income*' in the amount of CZK 276 million (2016: CZK 225 million). In both 2017 and 2016, '*Other income*' was predominantly composed of income from services provided to the Group's companies and the Société Générale Group entities as well as property rental income.

## 9 Personnel expenses

*Personnel expenses comprise the following:*

(CZKm)	2017	2016
Wages, salaries and bonuses	4,638	4,471
Social costs	1,857	1,790
<b>Total personnel expenses</b>	<b>6,495</b>	<b>6,261</b>
Physical number of employees at the end of the period*	7,722	7,663
Average recalculated number of employees during the period*	7,551	7,549
<b>Average cost per employee (CZK)</b>	<b>860,151</b>	<b>829,381</b>

\* Calculation according to Czech Statistical Office methodology.

'Social costs' include costs of CZK 82 million (2016: CZK 78 million) paid by the Bank to the employees' retirement pension insurance scheme and costs of CZK 43 million (2016: CZK 42 million) incurred in contributing to the employees' capital life insurance scheme.

### *Indexed bonuses*

In 2017, the total amount relating to bonuses indexed on the Komerční banka share price recognised in 'Personnel expenses' was CZK 39 million (2016: CZK 45 million) and the total amount of CZK 57 million (2016: CZK 55 million) was recognised as a liability. These amounts do not include the costs of social and health insurance and retirement pension insurance paid by the Bank. Net profit from hedging indexed bonuses by fair value hedge and cash flow hedge derivatives was CZK 3 million (2016: net loss of CZK 7 million). The total number of Komerční banka shares according to which bonuses indexed on the Komerční banka share price are calculated is 97,167 shares (2016: 92,850 shares).

*The changes in the numbers of Komerční banka shares were as follow:*

(in shares)	2017	2016
<b>Balance as of 1 January</b>	<b>92,850</b>	<b>82,860</b>
Paid out during the period	(38,593)	(43,450)
Presumed number of newly guaranteed shares	42,910	53,440
<b>Balance as of 31 December</b>	<b>97,167</b>	<b>92,850</b>

### *Free and deferred share plans*

For 2017, the total amount relating to the free shares programme and deferred share plans recognised in 'Personnel expenses' was CZK 29 million (2016: CZK 24 million).

*The changes in the numbers of shares were as follow:*

	2017		2016	
(in shares; EUR)	Number of shares	Average price	Number of shares*	Average price
<b>Balance as of 1 January</b>	<b>120,555</b>	<b>31.62</b>	<b>318,673</b>	<b>35.12</b>
Granted during the year	23,384	41.05	31,988	29.55
Forfeited during the year	(1,687)	31.62	(18,996)	37.19
Exercised during the year	(38,185)	31.62	(211,110)	34.00
<b>Balance as of 31 December</b>	<b>104,067</b>	<b>35.38</b>	<b>120,555</b>	<b>31.62</b>

\* Number of shares was adjusted for the effect of a 1-to-5 split implemented in April 2016.

## 10 General and administrative expenses

General and administrative expenses comprise the following:

(CZKm)	2017	2016
Insurance	65	67
Marketing and representation	519	499
Sale and banking products expenses	284	278
Other employees expenses and travelling	132	122
Real estate expenses	1,191	1,215
IT support	909	989
Equipment and supplies	125	121
Telecommunications, postage and data transfer	211	209
External consultancy and other services	496	490
Resolution and similar funds	834	851
Other expenses	93	79
<b>Total general and administrative expenses</b>	<b>4,859</b>	<b>4,920</b>

## 11 Depreciation, amortisation, impairment and net profits on other assets

Depreciation, amortisation, impairment and disposal of assets comprise the following:

(CZKm)	2017	2016
Tangible and intangible assets depreciation and amortisation (refer to Notes 25 and 26)	1,450	1,543
Impairment of operating assets	259	(7)
<b>Total depreciation, amortisation and impairment of operating assets</b>	<b>1,709</b>	<b>1,536</b>

The net loss of 'Impairment of operating assets' in the total amount of CZK 259 million (2016: net gain of CZK 7 million) mainly includes the impairment loss on assets for an operating building.

(CZKm)	2017	2016
Net profits on other assets	(84)	(7)
<b>Total net profits on other assets</b>	<b>(84)</b>	<b>(7)</b>

The net gain of 'Net profits on other assets' in the total amount of CZK 84 million (2016: CZK 7 million) mainly includes a net loss from sale of buildings in the amount of CZK 7 million (2016: CZK 2 million) and a net gain from impairment reversal on assets held for sale in the amount of CZK 77 million (2016: CZK 7 million).

## 12 Cost of risk

### Allowance for loan losses and provisions for other credit commitments

The net gain of 'Allowances for loan losses' totalling CZK 281 million (2016: net loss of CZK 1,884 million) includes a net gain from allowances and provisions for loan losses in the amount of CZK 58 million (2016: net loss of CZK 2,151 million) and a net gain from loans written off and transferred in the amount of CZK 223 million (2016: net gain of CZK 267 million).

*The balances and movements of allowances and provisions for loans as of 31 December 2017 were as follow:*

(CZKm)	As of 1 Jan 2017	Charge	Release	Write off and transfer	Foreign exchange	As of 31 Dec 2017
Portfolio allowances for loans to banks (refer to Note 20)	(20)	(43)	51	0	2	(10)
Specific allowances for loans to banks (refer to Note 20)	0	0	0	0	0	0
Portfolio allowances for loans to customers (refer to Note 21)	(1,144)	(360)	383	0	12	(1,109)
– Individuals	(427)	(22)	119	0	0	(330)
– Corporates*	(717)	(338)	264	0	12	(779)
Specific allowances for loans to customers (refer to Note 21)	(10,836)	(5,664)	5,866	1,334	76	(9,224)
– Individuals	(3,932)	(1,152)	1,359	482	0	(3,243)
– Corporates*	(6,904)	(4,512)	4,507	852	76	(5,981)
Specific allowances for other amounts due from customers (refer to Note 21)	0	0	0	0	0	0
Provisions for guarantees and other credit-related commitments (refer to Note 32)	(1,241)	(1,147)	975	0	20	(1,393)
– Individuals	(10)	(20)	22	0	0	(8)
– Corporates*	(1,231)	(1,127)	953	0	20	(1,385)
Specific allowances for other assets (refer to Note 23)	(222)	(8)	5	2	0	(223)
<b>Total</b>	<b>(13,463)</b>	<b>(7,222)</b>	<b>7,280</b>	<b>1,336</b>	<b>110</b>	<b>(11,959)</b>

\* This item also includes allowances and provisions for loans granted to individual entrepreneurs.

*The balances and movements of allowances and provisions for loans as of 31 December 2016 were as follow:*

(CZKm)	As of 1 Jan 2016	Charge	Release	Write off and transfer	Foreign exchange	As of 31 Dec 2016
Portfolio allowances for loans to banks (refer to Note 20)	(18)	(26)	24	0	0	(20)
Specific allowances for loans to banks (refer to Note 20)	0	0	0	0	0	0
Portfolio allowances for loans to customers (refer to Note 21)	(1,080)	(416)	352	0	0	(1,144)
– Individuals	(390)	(70)	33	0	0	(427)
– Corporates*	(690)	(346)	319	0	0	(717)
Specific allowances for loans to customers (refer to Note 21)	(10,808)	(8,065)	6,437	1,603	(3)	(10,836)
– Individuals	(4,481)	(1,254)	1,293	510	0	(3,932)
– Corporates*	(6,327)	(6,811)	5,144	1,093	(3)	(6,904)
Specific allowances for other amounts due from customers (refer to Note 21)	(1)	0	1	0	0	0
Provisions for guarantees and other credit-related commitments (refer to Note 32)	(783)	(1,484)	1,026	0	0	(1,241)
– Individuals	(13)	(27)	30	0	0	(10)
– Corporates*	(770)	(1,457)	996	0	0	(1,231)
Specific allowances for other assets (refer to Note 23)	(236)	(8)	8	14	0	(222)
<b>Total</b>	<b>(12,926)</b>	<b>(9,999)</b>	<b>7,848</b>	<b>1,617</b>	<b>(3)</b>	<b>(13,463)</b>

\* This item also includes allowances and provisions for loans granted to individual entrepreneurs.



### Provisions for other risk expenses

The net gain of 'Provisions for other risk expenses' of CZK 5 million (2016: net gain of CZK 26 million) consists mainly of the charge for provisions of CZK 2 million (2016: CZK 6 million) and the release and use of provisions of CZK 43 million (2016: CZK 36 million) for legal disputes, together with the net costs incurred by the Bank as a result of the outcome of legal disputes of CZK 36 million (2016: CZK 4 million).

Additional information on the provisions for other risk expenses is provided in Note 32.

## 13 Profit/(loss) on subsidiaries and associates

In March 2017, the Bank sold its subsidiary NP 33, s.r.o. to CRI NP 33, s.r.o., which is owned by Commerz Real Investmentgesellschaft mbH. NP 33, s.r.o. is sole owner of the Bank's headquarters building at Na Příkopě 33 in Prague. The sale constitutes part of the Bank's plan to centralise its headquarters into fewer premises.

In March 2016, the Bank concluded an agreement on sale of its interest in Cataps, s.r.o. with Worldline SA/NV based upon which the Bank transferred its merchant acquiring into Cataps, s.r.o. and subsequently sold its 80% stake in Cataps, s.r.o. Both steps were performed in September 2016. The selling price for the 80% stake in Cataps, s.r.o. was CZK 727 million. In 2017, the selling price for the 80% stake was reduced by CZK 6 million. The remaining 20% stake in Cataps, s.r.o., valued at CZK 8 million was reclassified as 'Assets held for sale' due to the expected sale of this company.

## 14 Income tax

*The major components of corporate income tax expense are as follow:*

(CZKm)	2017	2016
Tax payable – current year, reported in profit or loss	(2,789)	(2,713)
Tax paid – prior year	1	28
Deferred tax (refer to Note 33)	(19)	176
<b>Total income tax</b>	<b>(2,807)</b>	<b>(2,509)</b>

*The items explaining the difference between the Bank's theoretical and effective tax rates are as follow:*

(CZKm)	2017	2016
<b>Profit before income tax</b>	<b>17,721</b>	<b>16,628</b>
Theoretical tax calculated at a tax rate of 19% (2016: 19%)	3,367	3,159
Tax on pre-tax profit adjustments	(18)	70
Non-taxable income	(1,839)	(1,802)
Expenses not deductible for tax purposes	1,276	1,281
Tax allowance	(3)	(2)
Movement in deferred tax	19	(176)
Other	6	7
<b>Income tax expense</b>	<b>2,808</b>	<b>2,537</b>
Prior period tax expense	(1)	(28)
<b>Total income tax</b>	<b>2,807</b>	<b>2,509</b>
Effective tax rate	15.84%	15.09%

Non-taxable income primarily includes dividends, tax-exempt interest income and release of tax non-deductible allowances and provisions. Expenses not deductible for tax purposes include primarily the recognition of tax non-deductible allowances and provisions and tax non-deductible operating expenses. Tax on pre-tax profit adjustments primarily represents an adjustment of the IFRS result to Czech Accounting Standards (CAS).

The corporate tax rate for the year ended 31 December 2017 is 19% (2016: 19%). The Bank's tax liability is calculated based upon the accounting profit while taking into account tax non-deductible expenses and tax-exempt income or income subject to a final withholding tax rate.

Further information about deferred tax is presented in Note 33.

## 15 Distribution of net profit

For the year ended 31 December 2017, the Bank generated a net profit of CZK 14,914 million (2016: CZK 14,119 million). The Bank's Board of Directors will propose to the Supervisory Board a dividend payment in the amount of CZK 47 per share (2016: CZK 40 per share), which means a total amount of CZK 8,932 million (2016: CZK 7,602 million). The proposal is subject to the Supervisory Board's approval and subsequently to the approval of the General Shareholders' Meeting.

In accordance with a resolution of the General Shareholders' Meeting held on 25 April 2017, the aggregate balance of the net profit of CZK 14,119 million for the year ended 31 December 2016 was allocated as follows: CZK 7,602 million was paid out in dividends and the remaining balance of the net profit was allocated to retained earnings. The dividends were paid out in Czech crowns.

## 16 Cash and current balances with central banks

Cash and current balances with central banks comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
Cash and cash values	10,070	8,996
Current balances with central banks	22,453	94,997
<b>Total cash and current balances with central banks</b> (refer to Note 36)	<b>32,523</b>	<b>103,993</b>

Obligatory minimum reserves in the amount of CZK 16,412 million (2016: CZK 93,292 million) are included in 'Current balances with central banks' and they bear interest. As of 31 December 2017, the interest rate was 0.50% (2016: 0.05%) in the Czech Republic and 0.00% (2016: 0.00%) in the Slovak Republic.

## 17 Financial assets at fair value through profit or loss

As of 31 December 2017 and 2016, the 'Financial assets at fair value through profit or loss' portfolio includes only securities and positive fair values of derivative financial instruments held for trading. Upon initial recognition, the Bank has not designated any financial assets as 'Financial assets at fair value through profit or loss'.

(CZKm)	31 Dec 2017	31 Dec 2016
Securities	2,629	11,445
Derivative financial instruments	16,740	19,037
<b>Total financial assets at fair value through profit or loss</b>	<b>19,369</b>	<b>30,482</b>

For detailed information on derivative financial instruments included in the held for trading portfolio, refer to Note 42(C).

Trading securities comprise the following:

(CZKm)	31 Dec 2017		31 Dec 2016	
	Fair value	Cost*	Fair value	Cost*
<b>Emission allowances</b>	<b>996</b>	<b>821</b>	<b>1,839</b>	<b>1,766</b>
Fixed income debt securities	807	805	6,594	6,477
Variable yield debt securities	669	669	2,140	2,127
Bills of exchange	157	157	872	871
Treasury bills	0	0	0	0
<b>Total debt securities</b>	<b>1,633</b>	<b>1,631</b>	<b>9,606</b>	<b>9,475</b>
<b>Total trading securities</b>	<b>2,629</b>	<b>2,452</b>	<b>11,445</b>	<b>11,241</b>

\* Acquisition cost for shares, participation certificates and emission allowances; amortised acquisition cost excluding coupon for debt securities.

As of 31 December 2017, the portfolio of trading securities included securities at fair value of CZK 2,435 million (2016: CZK 10,516 million) that are publicly traded on stock exchanges and securities at fair value of CZK 194 million (2016: CZK 929 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).

*Emission allowances at fair value comprise the following:*

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Emission allowances</b>		
– Other currencies	996	1,839
<b>Total emission allowances</b>	<b>996</b>	<b>1,839</b>

*Emission allowances at fair value, allocated by issuer, comprise the following:*

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Emission allowances issued by:</b>		
– Foreign financial institutions	996	1,839
<b>Total emission allowances</b>	<b>996</b>	<b>1,839</b>

*Debt securities held for trading at fair value comprise the following:*

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Fixed income debt securities (including bills of exchange and treasury bills)</b>		
– Czech crowns	742	6,636
– Other currencies	222	830
<b>Total fixed income debt securities</b>	<b>964</b>	<b>7,466</b>
<b>Variable yield debt securities</b>		
– Czech crowns	669	2,140
– Other currencies	0	0
<b>Total variable yield debt securities</b>	<b>669</b>	<b>2,140</b>
<b>Total debt securities held for trading</b>	<b>1,633</b>	<b>9,606</b>

*Debt securities held for trading at fair value, allocated by issuer, comprise the following:*

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Debt securities held for trading issued by:</b>		
– State institutions in the Czech Republic	1,506	8,857
– Foreign state institutions	71	658
– Financial institutions in the Czech Republic	55	59
– Foreign financial institutions	0	15
– Other entities in the Czech Republic	1	17
– Other foreign entities	0	0
<b>Total debt securities held for trading</b>	<b>1,633</b>	<b>9,606</b>

*Bonds issued by Foreign state institutions designated as financial assets at fair value through profit or loss:*

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Country of issuer</b>	<b>Fair value</b>	<b>Fair value</b>
European Investment Bank	62	62
Slovakia	9	596
<b>Total</b>	<b>71</b>	<b>658</b>

Of the debt securities issued by State institutions in the Czech Republic, CZK 1,189 million (2016: CZK 7,807 million) consist of securities eligible for refinancing with the CNB.

## 18 Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

(CZKm)	31 Dec 2017		31 Dec 2016	
	Fair value	Cost*	Fair value	Cost*
<b>Shares and participation certificates</b>	<b>240</b>	<b>145</b>	<b>182</b>	<b>177</b>
Fixed income debt securities	16,794	15,922	17,568	15,437
Variable yield debt securities	6,643	6,448	13,661	13,224
<b>Total debt securities</b>	<b>23,437</b>	<b>22,370</b>	<b>31,229</b>	<b>28,661</b>
<b>Total available-for-sale financial assets</b>	<b>23,677</b>	<b>22,515</b>	<b>31,411</b>	<b>28,838</b>

\* Acquisition cost for shares and participation certificates; amortised acquisition cost excluding coupon for debt securities.

As of 31 December 2017, the 'Available-for-sale financial assets' portfolio includes securities at fair value of CZK 23,437 million (2016: CZK 31,229 million) that are publicly traded on stock exchanges and securities at fair value of CZK 240 million (2016: CZK 182 million) that are not publicly traded.

As of 31 December 2017, the 'Available-for-sale financial assets' portfolio includes bonds at fair value of CZK 1,233 million (2016: CZK 1,348 million) that are used as collateral for intraday facilities in central banks.

In 2016, the Bank sold a stake in Visa Europe Limited. The Bank's net gain from the sale was CZK 959 million (refer to Note 7).

Shares and participation certificates available-for-sale at fair value comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Shares and participation certificates</b>		
– Other currencies	240	182
<b>Total shares and participation certificates available-for-sale</b>	<b>240</b>	<b>182</b>

Shares and participation certificates available-for-sale at fair value, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Shares and participation certificates available-for-sale issued by:</b>		
– Other foreign entities	240	182
<b>Total shares and participation certificates available-for-sale</b>	<b>240</b>	<b>182</b>

Debt securities available-for-sale at fair value comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Fixed income debt securities</b>		
– Czech crowns	12,261	12,663
– Other currencies	4,533	4,905
<b>Total fixed income debt securities</b>	<b>16,794</b>	<b>17,568</b>
<b>Variable yield debt securities</b>		
– Czech crowns	4,085	10,951
– Other currencies	2,558	2,710
<b>Total variable yield debt securities</b>	<b>6,643</b>	<b>13,661</b>
<b>Total debt securities available-for-sale</b>	<b>23,437</b>	<b>31,229</b>

Debt securities available-for-sale at fair value, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Debt securities available-for-sale issued by:</b>		
– State institutions in the Czech Republic	16,346	15,243
– Foreign state institutions	4,533	4,905
– Financial institutions in the Czech Republic	2,558	10,259
– Foreign financial institutions	0	822
<b>Total debt securities available-for-sale</b>	<b>23,437</b>	<b>31,229</b>

Debt securities available-for-sale issued by Foreign state institutions comprise the following:

(CZKm)	31 Dec 2017		31 Dec 2016	
Country of issuer	Fair value	Cost*	Fair value	Cost*
Poland	754	639	788	676
Slovakia	3,779	3,134	4,117	3,326
<b>Total</b>	<b>4,533</b>	<b>3,773</b>	<b>4,905</b>	<b>4,002</b>

\* Acquisition cost for shares and participation certificates; amortised acquisition cost excluding coupon for debt securities.

Of the debt securities issued by State institutions in the Czech Republic, CZK 16,346 million (2016: CZK 15,243 million) consist of securities eligible for refinancing with the CNB.

#### Reclassification of certain debt securities held in the portfolio of 'Available-for-sale financial assets'

During the first quarter of 2014, the Bank reviewed the accounting recognition of certain debt securities issued by State institutions held in the portfolio of 'Available-for-sale financial assets' (hereafter only "AFS") on the basis of the Bank's changing its intention for their classification. The Bank concluded that all regulatory and accounting requirements, as well as internal limits, were satisfied for recognition of the debt securities in the nominal value of CZK 50,260 million in the portfolio of 'Held-to-maturity investments' (hereafter only "HTM") and decided to reclassify the respective securities from AFS to HTM. The securities were reclassified at fair value. The corresponding unrealised gains and losses in equity of CZK 4,474 million as of the reclassification date are retained in Other Comprehensive Income. Such amounts are amortised over the remaining life of the security (refer to Note 41).

## 19 Assets held for sale

As of 31 December 2017, the Bank reported assets held for sale at a carrying amount of CZK 127 million (2016: CZK 587 million) comprising buildings and land owned by the Bank which the management of the Bank decided to sell as a component of a plan to optimise the distribution network. Depreciation of these assets has been discontinued since their classification as assets held for sale. As of 31 December 2017, the Bank recognised allowances against assets held for sale of CZK 152 million (2016: CZK 402 million).

As of 31 December 2017, 'Assets held for sale' also includes investments in subsidiaries and associates classified as assets held for sale at a carrying amount of CZK 8 million (2016: CZK 243 million). For detail, refer to Note 24.

## 20 Amounts due from banks

Balances due from banks comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
Current accounts with other banks (refer to Note 36)	295	788
Debt securities	2,846	5,060
Loans and advances to banks	17,112	12,348
Advances due from central banks (reverse repo transactions)	178,021	6,000
Term placements with other banks	34,015	33,807
<b>Total amounts due from banks, gross</b>	<b>232,289</b>	<b>58,003</b>
Portfolio allowances for loans to banks (refer to Note 12)	(10)	(20)
Specific allowances for loans to banks (refer to Note 12)	0	0
<b>Total allowances for loans to banks</b>	<b>(10)</b>	<b>(20)</b>
<b>Total amounts due from banks, net</b>	<b>232,279</b>	<b>57,983</b>

Advances due from the CNB and other banks under reverse repurchase transactions are collateralised by treasury bills issued by the CNB and other debt securities, the fair values of which are as follow:

(CZKm)	31 Dec 2017	31 Dec 2016
Treasury bills	177,003	5,904
Debt securities issued by state institutions	2,028	167
Shares	0	0
Investment certificates	0	0
<b>Total</b>	<b>179,031</b>	<b>6,071</b>

Total amount of advances due from the CNB and other banks under reverse repurchase transactions was CZK 180,054 million (2016: CZK 6,167 million).

### Securities acquired as loans and receivables

As of 31 December 2017, the Bank maintains in its portfolio bonds at an amortised cost of CZK 2,846 million (2016: CZK 5,060 million) and a nominal value of CZK 2,822 million (2016: CZK 4,939 million), of which bonds with a nominal value of CZK 99 million (2016: CZK 2,099 million) and EUR 79 million (2016: EUR 79 million) are issued by Financial institutions in the Czech Republic and CZK 705 million (2016: CZK 705 million) by Foreign financial institutions.



## 21 Loans and advances to customers

Loans and advances to customers comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
Loans to customers	538,195	534,800
Bills of exchange	218	243
Forfaits	588	816
<b>Total loans and advances to customers excluding debt securities and other amounts due to customers, gross</b>	<b>539,001</b>	<b>535,859</b>
Debt securities	3,635	3,193
Other amounts due from customers	3,018	71
<b>Total loans and advances to customers, gross</b>	<b>545,654</b>	<b>539,123</b>
Portfolio allowances for loans to customers (refer to Note 12)		
– Individuals	(330)	(427)
– Corporates*	(779)	(717)
Specific allowances for loans to customers (refer to Note 12)		
– Individuals	(3,243)	(3,932)
– Corporates*	(5,981)	(6,904)
<b>Total allowances for loans to customers</b>	<b>(10,333)</b>	<b>(11,980)</b>
Specific allowances for other amounts due from customers (refer to Note 12)	0	0
<b>Total allowances for loans and other amounts due from customers</b>	<b>(10,333)</b>	<b>(11,980)</b>
<b>Total loans and advances to customers, net</b>	<b>535,321</b>	<b>527,143</b>

\* This item also includes allowances for loans granted to individual entrepreneurs.

As of 31 December 2017, loans and advances to customers include accrued interest of CZK 742 million (2016: CZK 845 million), of which CZK 233 million (2016: CZK 293 million) relates to interest from overdue receivables.

As of 31 December 2017, loans provided to customers under reverse repurchase transactions in the amount of CZK 1,256 million (2016: CZK 6 million) are collateralised by securities with a fair value of CZK 1,567 million (2016: CZK 4 million).

*As of 31 December 2017, the loan portfolio of the Bank (excluding Debt securities and Other amounts due from customers) is comprised of the following, as broken down by classification:*

(CZKm)	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value
Standard	518,484	252,068	266,416	(777)*	517,707
Watch	5,881	2,691	3,190	(332)*	5,549
Substandard	3,510	2,123	1,387	(1,317)	2,193
Doubtful	1,876	547	1,329	(989)	887
Loss	9,250	1,213	8,037	(6,918)	2,332
<b>Total</b>	<b>539,001</b>	<b>258,642</b>	<b>280,359</b>	<b>(10,333)</b>	<b>528,668</b>

\* This item includes portfolio allowances (due to losses incurred but not reported).

*As of 31 December 2016, the loan portfolio of the Bank (excluding Debt securities and Other amounts due from customers) was comprised of the following, as broken down by classification:*

(CZKm)	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value
Standard	512,268	238,498	273,770	(674)*	511,594
Watch	6,472	2,685	3,787	(470)*	6,002
Substandard	4,571	2,586	1,985	(1,937)	2,634
Doubtful	1,924	929	995	(663)	1,261
Loss	10,624	1,158	9,466	(8,236)	2,388
<b>Total</b>	<b>535,859</b>	<b>245,856</b>	<b>290,003</b>	<b>(11,980)</b>	<b>523,879</b>

\* This item includes portfolio allowances (due to losses incurred but not reported).

Set out below is a breakdown of loans by sector (excluding Debt securities and Other amounts due from customers):

(CZKm)	31 Dec 2017	31 Dec 2016
Food industry and agriculture	15,532	14,381
Mining and extraction	3,642	4,298
Chemical and pharmaceutical industry	6,372	5,658
Metallurgy	11,150	8,204
Automotive industry	11,353	10,839
Manufacturing of other machinery	7,927	8,434
Manufacturing of electrical and electronic equipment	3,289	3,737
Other processing industry	8,777	9,240
Power plants, gas plants and waterworks	16,976	19,294
Construction industry	7,974	8,619
Retail	15,074	15,006
Wholesale	24,128	25,117
Accommodation and catering	1,707	1,431
Transportation, telecommunication and warehouses	12,597	10,861
Banking and insurance industry	55,125	57,939
Real estate	46,455	50,974
Public administration	21,319	24,627
Other industries	27,548	26,196
Individuals	242,056	231,004
<b>Total loans to customers</b>	<b>539,001</b>	<b>535,859</b>

The majority of loans – more than 90% (2016: more than 90%) – were provided to entities on the territory of the Czech Republic.

Broken out below are the types of collateral held in support of loans and advances to customers as stated in the Statement of Financial Position:

(CZKm)	31 Dec 2017			31 Dec 2016		
	Total client loan collateral*	Discounted client loan collateral value**	Applied client loan collateral value***	Total client loan collateral*	Discounted client loan collateral value**	Applied client loan collateral value***
Guarantees of state and governmental institutions	1,328	1,046	1,044	3,097	2,328	2,325
Bank guarantee	17,217	16,601	16,362	14,599	13,992	13,836
Guaranteed deposits	2,612	2,508	1,703	2,763	2,681	2,018
Pledge of real estate	426,673	286,814	211,914	396,823	267,540	197,487
Pledge of movable assets	13,940	1,338	1,312	13,053	2,082	1,279
Guarantee by legal entity	27,528	19,930	14,310	30,114	19,895	13,808
Guarantee by individual (natural person)	1,196	108	105	1,177	111	104
Pledge of receivables	33,932	3,576	2,790	32,829	4,636	3,073
Insurance of credit risk	8,856	8,411	8,410	11,628	11,054	11,045
Other	2,026	1,266	692	2,379	1,744	881
<b>Nominal value of collateral</b>	<b>535,308</b>	<b>341,598</b>	<b>258,642</b>	<b>508,462</b>	<b>326,063</b>	<b>245,856</b>

\* The nominal value of the collateral is determined based on internal rules of the Bank (e.g. internal property valuation, current value of collateral, market value of securities, etc.).

\*\* The nominal value of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc.

\*\*\* The applied collateral value is the discounted collateral value reduced to the actual balance of the collateralised exposure.

Pledges on industrial real estate represent 9% of total pledges on real estate (2016: 11%).

## Debt securities designated as loans and receivables

As of 31 December 2017, the Bank holds in its portfolio bonds at an amortised cost of CZK 3,104 million (2016: CZK 2,759 million) and a nominal value of CZK 3,042 million (2016: CZK 2,697 million), of which bonds with a nominal value of CZK 450 million (2016: CZK 450 million) are issued by State institutions in the Czech Republic, USD 1 million (2016: USD 0 million) by Foreign state institutions, CZK 2,110 million (2016: CZK 1,744 million) by Other entities in the Czech Republic and CZK 68 million (2016: CZK 68 million) and EUR 16 million (2016: EUR 16 million) by Other foreign entities. Additionally, the Bank holds in this portfolio bills of exchange at an amortised cost of CZK 505 million (2016: CZK 388 million) and a nominal value of CZK 507 million (2016: CZK 389 million), of which bills of exchange in the nominal value of CZK 300 million (2016: CZK 210 million) are issued by State institutions in the Czech Republic and CZK 207 million (2016: CZK 179 million) by Other entities in the Czech Republic. The portfolio is hedged using fair value hedge derivatives with a positive fair value of CZK 26 million (2016: CZK 46 million).

## Forborne loans and advances to customers

### Forborne loans and advances to customers as of 31 December 2017:

(CZKm)	Neither past due nor impaired	Past due, not impaired	Impaired	Total forborne	Allowances	Collateral applied
Individuals	919	134	914	1,967	419	1,391
Corporates*	294	0	2,480	2,774	1,497	686
<b>Total</b>	<b>1,213</b>	<b>134</b>	<b>3,394</b>	<b>4,741</b>	<b>1,916</b>	<b>2,077</b>

\* This item also includes loans granted to individual entrepreneurs.

### Forborne loans and advances to customers as of 31 December 2016:

(CZKm)	Neither past due nor impaired	Past due, not impaired	Impaired	Total forborne	Allowances	Collateral applied
Individuals	776	110	1,051	1,937	479	1,344
Corporates*	373	0	2,483	2,856	1,374	1,148
<b>Total</b>	<b>1,149</b>	<b>110</b>	<b>3,534</b>	<b>4,793</b>	<b>1,853</b>	<b>2,492</b>

\* This item also includes loans granted to individual entrepreneurs.

### The carrying value of forborne assets in comparison with the Bank's loan portfolio (excluding Debt securities and Other amounts due from customers):

(CZKm)	31 Dec 2017			31 Dec 2016		
	Gross receivable	Forborne assets	Share in gross receivable	Gross receivable	Forborne assets	Share in gross receivable
Individuals	242,056	1,967	0.81%	231,004	1,937	0.84%
Corporates*	296,945	2,774	0.93%	304,855	2,856	0.94%
<b>Total</b>	<b>539,001</b>	<b>4,741</b>	<b>0.88%</b>	<b>535,859</b>	<b>4,793</b>	<b>0.89%</b>

\* This item also includes loans granted to individual entrepreneurs.

### Portfolio and specific allowances for forborne assets:

(CZKm)	31 Dec 2017			31 Dec 2016		
	Portfolio allowances	Specific allowances	Total	Portfolio allowances	Specific allowances	Total
Individuals	10	409	419	10	469	479
Corporates*	24	1,473	1,497	36	1,338	1,374
<b>Total</b>	<b>34</b>	<b>1,882</b>	<b>1,916</b>	<b>46</b>	<b>1,807</b>	<b>1,853</b>

\* This item also includes allowances for loans granted to individual entrepreneurs.

## 22 Held-to-maturity investments

*Held-to-maturity investments comprise the following:*

(CZKm)	31 Dec 2017		31 Dec 2016	
	Carrying value	Cost*	Carrying value	Cost*
Fixed income debt securities	56,936	55,814	62,425	61,189
<b>Total held-to-maturity investments</b>	<b>56,936</b>	<b>55,814</b>	<b>62,425</b>	<b>61,189</b>

\* Amortised acquisition cost excluding coupon.

As of 31 December 2017, the 'Held-to-maturity investments' portfolio includes bonds of CZK 56,936 million (2016: CZK 62,425 million) that are publicly traded on stock exchanges and bonds of CZK 0 million (2016: CZK 0 million) that are not publicly traded.

As of 31 December 2017, the 'Held-to-maturity investments' portfolio includes bonds of CZK 976 million (2016: CZK 107 million) that are used as collateral for derivative deals with a central counterparty. The central counterparty is LCH.Clearnet SA. The Bank uses Société Générale Newedge UK Limited as related broker.

*Fixed income debt securities held-to-maturity comprise the following:*

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Fixed income debt securities</b>		
– Czech crowns	44,549	48,356
– Foreign currencies	12,387	14,069
<b>Total fixed income debt securities</b>	<b>56,936</b>	<b>62,425</b>

*Fixed income debt securities held-to-maturity, allocated by issuer, comprise the following:*

(CZKm)	31 Dec 2017	31 Dec 2016
<b>Fixed income debt securities issued by:</b>		
– State institutions in the Czech Republic	47,237	51,258
– Foreign state institutions	9,699	11,167
<b>Total fixed income debt securities</b>	<b>56,936</b>	<b>62,425</b>

*Debt securities held-to-maturity issued by Foreign state institutions comprise the following:*

(CZKm) Country of Issuer	31 Dec 2017		31 Dec 2016	
	Fair value	Cost*	Fair value	Cost*
Poland	7,422	7,002	7,938	7,818
Slovakia	2,697	2,476	2,822	3,096
<b>Total</b>	<b>10,119</b>	<b>9,478</b>	<b>10,760</b>	<b>10,914</b>

\* Amortised acquisition cost excluding coupon.

## 23 Prepayments, accrued income and other assets

*Prepayments, accrued income and other assets comprise the following:*

(CZKm)	31 Dec 2017	31 Dec 2016
Prepayments and accrued income	548	509
Settlement balances	624	223
Receivables from securities trading	342	78
Other assets	2,409	2,202
<b>Total prepayments, accrued income and other assets</b>	<b>3,923</b>	<b>3,012</b>

'Other assets' include allowances for operating receivables for other debtors in the amount of CZK 223 million (2016: CZK 222 million), and in particular also advances provided and receivables for other debtors.

## 24 Investments in subsidiaries and associates

Investments in subsidiaries and associates comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
Investments in subsidiary undertakings	19,091	20,455
Investments in associated undertakings	837	837
<b>Total investments in subsidiaries and associates</b>	<b>19,928</b>	<b>21,292</b>

### Subsidiary undertakings

The following companies are subsidiary undertakings of the Bank as of 31 December 2017:

Company name	Direct holding %	Group holding %	Principal activity	Registered office	Cost of investment (CZKm)	Allowances (CZKm)	Carrying value (CZKm)
Bastion European Investments S.A.	99.98	99.98	Financial services	Brussels	2,873	0	2,873
ESSOX s.r.o.	50.93	50.93	Consumer loans, leasing	České Budějovice	1,165	0	1,165
Factoring KB, a.s.	100	100	Factoring	Prague	1,190	0	1,190
KB Penzijní společnost, a.s.	100	100	Financial services	Prague	550	0	550
KB Real Estate, s.r.o.	100	100	Support services	Prague	511	0	511
Modrá pyramida stavební spořitelna, a.s.	100	100	Construction savings scheme	Prague	4,873	0	4,873
Protos, uzavřený investiční fond, a.s.	83.65	100	Financial services	Prague	5,032	0	5,032
SG Equipment Finance Czech Republic s.r.o.	50.1	50.1	Industry financing	Prague	1,850	0	1,850
STD2, a.s.	100	100	Support services	Prague	183	0	183
VN 42, s.r.o.	100	100	Support services	Prague	864	0	864
<b>Total</b>					<b>19,091</b>	<b>0</b>	<b>19,091</b>

### Associated undertakings

The following companies are associated undertakings of the Bank as of 31 December 2017:

Company name	Direct holding %	Group holding %	Principal activity	Registered office	Cost of investment (CZKm)	Allowances (CZKm)	Carrying value (CZKm)
CBCB – Czech Banking Credit Bureau, a.s.	20	20	Collection of data for evaluating credit risk	Prague	0*	0	0
Komerční pojišťovna, a.s.	49	49	Insurance activities	Prague	837	0	837
<b>Total</b>					<b>837</b>	<b>0</b>	<b>837</b>

\* The cost of investment for CBCB – Czech Banking Credit Bureau, a.s. is CZK 240 thousand.

### Investments in subsidiaries and associates classified as assets held for sale

The following investments in subsidiaries and associates of the Bank classified as assets held for sale as of 31 December 2017:

Company name	Direct holding %	Group holding %	Principal activity	Registered office	Cost of investment (CZKm)	Allowances (CZKm)	Carrying value (CZKm)
Cataps, s.r.o.	20	20	Financial services	Prague	8	0	8
<b>Total</b>					<b>8</b>	<b>0</b>	<b>8</b>

Set out below is an overview of year-on-year movements in investments, by issuer:

(CZKm)	Investment at cost as of 1 Jan 2017	Additions	Decreases	Reclass-ification	Investment at cost as of 31 Dec 2017
Bastion European Investments S.A. <sup>2)</sup>	3,123	0	(250)	0	2,873
ESSOX s.r.o.	1,165	0	0	0	1,165
Factoring KB, a.s.	1,190	0	0	0	1,190
KB Penzijní společnost, a.s.	550	0	0	0	550
KB Real Estate, s.r.o.	511	0	0	0	511
Modrá pyramida stavební spořitelna, a.s.	4,873	0	0	0	4,873
Protos, uzavřený investiční fond, a.s. <sup>4)</sup>	6,329	0	(1,297)	0	5,032
SG Equipment Finance Czech Republic s.r.o.	1,850	0	0	0	1,850
STD2, a.s. <sup>3)</sup>	0	183	0	0	183
VN 42, s.r.o.	864	0	0	0	864
<b>Total subsidiaries</b>	<b>20,455</b>	<b>183</b>	<b>(1,547)</b>	<b>0</b>	<b>19,091</b>
CBCB – Czech Banking Credit Bureau, a.s.	0*	0	0	0	0*
Komerční pojišťovna, a.s.	837	0	0	0	837
<b>Total associates</b>	<b>837</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>837</b>
Cataps, s.r.o.	8	0	0	0	8
NP 33, s.r.o. <sup>1)</sup>	235	0	(235)	0	0
<b>Total as assets held for sale</b>	<b>243</b>	<b>0</b>	<b>(235)</b>	<b>0</b>	<b>8</b>

\* The cost of investment for CBCB – Czech Banking Credit Bureau, a.s. is CZK 240 thousand.

#### Changes in equity investments in subsidiaries and associates in 2017

- 1) In March 2017, the Bank sold its subsidiary NP 33, s.r.o. to CRI NP 33, s.r.o., which is owned by Commerz Real Investmentgesellschaft mbH. NP 33, s.r.o. is sole owner of the Bank's headquarters building at Na Příkopě 33 in Prague. The sale constitutes part of the Bank's plan to centralise its headquarters into fewer premises.
- 2) In May 2017, the equity in Bastion European Investments S.A. was decreased by EUR 3.8 million (equivalent to CZK 108 million). The equity in Bastion European Investments S.A. was again decreased by EUR 5 million (equivalent to CZK 142 million) in October 2017. Both decreases were initiated solely by the Bank as the majority shareholder of Bastion European Investments S.A.
- 3) In October 2017, the Bank acquired the company Office Center Stodůlky a.s., which is owner of the new office building in Prague – Stodůlky. Completion of the building is expected in mid-2018, and the acquisition constitutes part of the Bank's plan to centralise its headquarters into fewer premises. Following the acquisition, the company was renamed to STD2, a.s. (registered as of 31 October 2017).
- 4) In December 2017, the Bank decreased the capital of its subsidiary Protos, uzavřený investiční fond, a.s. through decreasing the reserve fund and the share premium by CZK 1,550 million. The share of the Bank in this decrease was CZK 1,297 million, which reflects the Bank's 83.65% ownership share. The remaining ownership is held by Factoring KB, a.s., which is itself fully owned by the Bank.



## 25 Intangible assets

The movements in intangible assets were as follow:

(CZKm)	Internally generated assets*	Software	Other intangible assets	Acquisition of assets	Total
<b>Cost</b>					
As of 1 January 2016	10,812	1,761	17	982	13,572
Additions	902	75	0	1,005	1,982
Disposals/transfers	0	(4)	(3)	(975)	(982)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2016	11,714	1,832	14	1,012	14,572
Additions	1,152	71	0	1,716	2,939
Disposals/transfers	(249)	(4)	0	(1,222)	(1,475)
Foreign exchange rate difference	0	(1)	0	0	(1)
<b>As of 31 December 2017</b>	<b>12,617</b>	<b>1,898</b>	<b>14</b>	<b>1,506</b>	<b>16,035</b>
<b>Accumulated amortisation and allowances</b>					
As of 1 January 2016	(8,673)	(1,455)	(17)	0	(10,145)
Additions	(901)	(100)	0	0	(1,001)
Disposals	0	4	3	0	7
Impairment charge	0	(3)	0	(2)	(5)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2016	(9,574)	(1,554)	(14)	(2)	(11,144)
Additions	(836)	(91)	0	0	(927)
Disposals	249	4	0	0	253
Impairment charge	(29)	0	0	0	(29)
Foreign exchange rate difference	0	1	0	0	1
<b>As of 31 December 2017</b>	<b>(10,190)</b>	<b>(1,640)</b>	<b>(14)</b>	<b>(2)</b>	<b>(11,846)</b>
<b>Net book value</b>					
As of 31 December 2016	2,140	278	0	1,010	3,428
<b>As of 31 December 2017</b>	<b>2,427</b>	<b>258</b>	<b>0</b>	<b>1,504</b>	<b>4,189</b>

\* Internally generated assets comprise mainly software.

During the year ended 31 December 2017, the Bank expended CZK 141 million (2016: CZK 185 million) on research and development (when conditions for capitalisation were not met) through a charge to 'Operating expenses'. As of 31 December 2017, the Bank recognised allowances against intangible assets of CZK 32 million (2016: CZK 5 million). These allowances primarily included allowances charged in respect of internally generated assets (software).

## 26 Tangible assets

The movements in tangible assets were as follow:

(CZKm)	Land	Buildings	Machinery, furniture and fixtures and other	Acquisition of assets	Total
<b>Cost</b>					
As of 1 January 2016	111	6,981	4,335	428	11,855
Reallocation from/to assets held for sale	0	54	0	0	54
Additions	0	105	303	834	1,242
Disposals/transfers	0	(10)	(212)	(525)	(747)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2016	111	7,130	4,426	737	12,404
Reallocation from/to assets held for sale	0	0	0	0	0
Additions	0	416	509	872	1,797
Disposals/transfers	0	(33)	(351)	(929)	(1,313)
Foreign exchange rate difference	0	(1)	(1)	0	(2)
<b>As of 31 December 2017</b>	<b>111</b>	<b>7,512</b>	<b>4,583</b>	<b>680</b>	<b>12,886</b>
<b>Accumulated depreciation and allowances</b>					
As of 1 January 2016	0	(3,884)	(3,527)	0	(7,411)
Reallocation of accumulated depreciation of assets held for sale	0	32	0	0	32
Additions	0	(289)	(253)	0	(542)
Disposals	0	1	218	0	219
Impairment charge	0	9	(47)	0	(38)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2016	0	(4,131)	(3,609)	0	(7,740)
Reallocation of accumulated depreciation of assets held for sale	0	0	0	0	0
Additions	0	(251)	(272)	0	(523)
Disposals	0	33	337	0	370
Impairment charge	0	(241)	11	0	(230)
Foreign exchange rate difference	0	1	1	0	2
<b>As of 31 December 2017</b>	<b>0</b>	<b>(4,589)</b>	<b>(3,532)</b>	<b>0</b>	<b>(8,121)</b>
<b>Net book value</b>					
As of 31 December 2016	111	2,999	817	737	4,664
<b>As of 31 December 2017</b>	<b>111</b>	<b>2,923</b>	<b>1,051</b>	<b>680</b>	<b>4,765</b>

As of 31 December 2017, the Bank recognised allowances against tangible assets of CZK 250 million (2016: CZK 45 million). These allowances primarily included allowances charged in respect of Nonet building in the amount of CZK 241 million (2016: CZK 0 million) represented by the excess of net book value over recoverable amount determined as fair value less costs to sell (based on Bank's the headquarters optimisation strategy).

## 27 Financial liabilities at fair value through profit or loss

As of 31 December 2017 and 2016, the 'Financial liabilities at fair value through profit or loss' portfolio includes only liabilities arising from short sales of securities and negative fair values of financial derivative instruments held for trading. Upon initial recognition, the Bank has not designated any financial liabilities as 'Financial liabilities at fair value through profit or loss'.

(CZKm)	31 Dec 2017	31 Dec 2016
Sold securities	1,673	160
Derivative financial instruments	18,161	18,780
<b>Total financial liabilities at fair value through profit or loss</b>	<b>19,834</b>	<b>18,940</b>

For detailed information on financial derivative instruments included in the portfolio for trading, refer to Note 42(C).

## 28 Amounts due to banks

Amounts due to banks comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
Current accounts (refer to Note 36)	8,842	3,168
Amounts due to banks	60,758	40,114
<b>Total amounts due to banks</b>	<b>69,600</b>	<b>43,282</b>

The fair values of securities and treasury bills used as collateral for repurchase transactions are as follow:

(CZKm)	31 Dec 2017		31 Dec 2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at fair value through profit or loss	51	51	403	403
Available-for-sale financial assets	725	725	758	758
Held-to-maturity investments	4,539	4,726	4,889	4,862
Securities received as collateral	0	0	0	0
<b>Total</b>	<b>5,315</b>	<b>5,502</b>	<b>6,049</b>	<b>6,023</b>

Total amount of loans from banks received under repurchase transactions was CZK 5,144 million (2016: CZK 5,803 million).

## 29 Amounts due to customers

Amounts due to customers, by type of deposit, comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
Current accounts	558,658	497,588
Savings accounts	101,955	97,381
Term deposits	30,210	32,766
Amounts received from customers	5,961	5,198
Other payables to customers	5,269	5,477
<b>Total amounts due to customers</b>	<b>702,053</b>	<b>638,410</b>

The fair value of securities and treasury bills used as collateral for repurchase transactions received from customers was CZK 6,018 million (2016: CZK 5,217 million), comprising securities received as collateral.

Amounts due to customers, by type of customer, comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
Private companies	236,692	220,252
Other financial institutions, non-banking entities	44,803	24,669
Insurance companies	4,651	6,085
Public administration	47	577
Individuals	245,690	224,428
Individuals – entrepreneurs	32,806	30,496
Government agencies	81,632	77,309
Other	17,780	16,048
Non-residents	37,952	38,546
<b>Total amounts due to customers</b>	<b>702,053</b>	<b>638,410</b>

### 30 Securities issued

Securities issued comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
Mortgage bonds	33,268	43,362
Depository bills of exchange	2,070	2,393
<b>Total securities issued</b>	<b>35,338</b>	<b>45,755</b>

The Bank issues mortgage bonds to fund its mortgage activities.

The following table shows a summary of cash and non-cash changes in the balance of securities issued:

(CZKm)	31 Dec 2016	Cash flow	Non-cash changes		31 Dec 2017
			Amortisation and accrued interest	Change of FV hedge of interest rate risk	
Mortgage bonds	43,362	(11,030)	1,252	(316)	33,268
Depository bills of exchange	2,393	(334)	11	0	2,070
<b>Total securities issued</b>	<b>45,755</b>	<b>(11,364)</b>	<b>1,263</b>	<b>(316)</b>	<b>35,338</b>

(CZKm)	31 Dec 2015	Cash flow	Non-cash changes		31 Dec 2016
			Amortisation and accrued interest	Change of FV hedge of interest rate risk	
Mortgage bonds	43,717	(1,739)	1,294	90	43,362
Depository bills of exchange	10,581	(8,237)	49	0	2,393
<b>Total securities issued</b>	<b>54,298</b>	<b>(9,976)</b>	<b>1,343</b>	<b>90</b>	<b>45,755</b>

Mortgage bonds according to their remaining time to maturity break out as follows:

(CZKm)	31 Dec 2017	31 Dec 2016
In less than one year	1,753	129
In one to five years	5,910	4,829
In five to ten years	4,569	7,775
In ten to twenty years	21,036	2,541
More than twenty years	0	28,088
<b>Total mortgage bonds</b>	<b>33,268</b>	<b>43,362</b>

The securities issued detailed above include the following mortgage bonds issued by the Bank:

Name	Interest rate	Currency	Issue date	Maturity date	31 Dec 2017 CZKm	31 Dec 2016 CZKm
HZL Komerční banky, a.s., CZ0002001142	5.0%	CZK	16 Aug 2007	16 Aug 2019	2,052	3,084
HZL Komerční banky, a.s., CZ0002001324, CZ0002001332	5.06% for the first 12 annual interest periods, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	2,432	2,440
HZL Komerční banky, a.s., CZ0002001340, CZ0002001357	5.02% for the first 11 annual interest periods, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	1,732	1,756
HZL Komerční banky, a.s., CZ0002001365, CZ0002001373	4.23% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	1,902	1,882
HZL Komerční banky, a.s., CZ0002001431, CZ0002001449, CZ0002001456	4.14% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	30 Nov 2007	30 Nov 2037	3,417	3,382
HZL Komerční banky, a.s., CZ0002001506, CZ0002001514, CZ0002001522, CZ0002001530, CZ0002001548	4.29% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	7 Dec 2007	7 Dec 2037	5,036	5,018
HZL Komerční banky, a.s., CZ0002001555, CZ0002001563, CZ0002001571, CZ0002001589	4.33% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	12 Dec 2007	12 Dec 2037	4,992	5,023
HZL Komerční banky, a.s., CZ0002001753	Rate of the interest rate swap sale in CZK for 10 years plus 150 bps	CZK	21 Dec 2007	21 Dec 2037	0	8,587
HZL Komerční banky, a.s., CZ0002001761	4.09%	CZK	19 Dec 2007	19 Dec 2017	0	129
HZL Komerční banky, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	3,018	3,021
HZL Komerční banky, a.s., CZ0002003064	6M PRIBOR plus 50 bps	CZK	14 Mar 2013	14 Mar 2018	1,753	1,745
HZL Komerční banky, a.s., CZ0002003346	3.50%	CZK	31 Jan 2014	31 Jan 2026	868	873
HZL Komerční banky, a.s., CZ0002003353	3.50%	CZK	31 Jan 2014	31 Jan 2025	1,243	1,255
HZL Komerční banky, a.s., CZ0002003361	3.00%	CZK	30 Jan 2014	30 Jan 2024	948	951
HZL Komerční banky, a.s., CZ0002003379	3.00%	CZK	30 Jan 2014	30 Apr 2022	841	846
HZL Komerční banky, a.s., CZ0002003742	2.00%	CZK	18 Nov 2014	18 Nov 2026	753	829
HZL Komerční banky, a.s., CZ0002003759	2.10%	CZK	24 Nov 2014	24 Nov 2027	756	838
HZL Komerční banky, a.s., CZ0002003767	2.20%	CZK	20 Nov 2014	20 Nov 2028	762	849
HZL Komerční banky, a.s., CZ0002003775	2.30%	CZK	27 Nov 2014	27 Nov 2029	763	854
<b>Total mortgage bonds</b>					<b>33,268</b>	<b>43,362</b>

\* The reference rate can be of the following type: 3M PRIBOR to 12M PRIBOR, the swap sale for 2 to 30 years.

Six-month PRIBOR as of 31 December 2017 was 85 bps (2016: 35 bps).

The value of the interest rate swap CZK sale average for five years as of 31 December 2017 was 165 bps (2016: 52 bps).

The value of the interest rate swap CZK sale average for ten years as of 31 December 2017 was 187 bps (2016: 88 bps).

## 31 Accruals and other liabilities

*Accruals and other liabilities comprise the following:*

(CZKm)	31 Dec 2017	31 Dec 2016
Accruals and deferred income	200	211
Settlement balances and outstanding items	17	0
Payables from securities trading and issues of securities	4,613	3,305
Payables from payment transactions	7,780	6,590
Other liabilities	4,072	4,043
<b>Total accruals and other liabilities</b>	<b>16,682</b>	<b>14,149</b>

Deferred fees from banking guarantees are reported in 'Accruals and deferred income' in the amount of CZK 18 million (2016: CZK 22 million).

'Other liabilities' mainly include liabilities arising from the delivery of goods and services and relationships with employees (including estimated balances).

## 32 Provisions

*Provisions comprise the following:*

(CZKm)	31 Dec 2017	31 Dec 2016
Provisions for contracted commitments (refer to Notes 12 and 37)	505	460
Provisions for other credit commitments (refer to Note 12)	1,393	1,241
<b>Total provisions</b>	<b>1,898</b>	<b>1,701</b>

The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise the provisions for ongoing contracted contingent commitments, legal disputes, self-insurance and the retirement benefits plan.

*Provisions for other credit commitments are broken out below by type of risks covered:*

(CZKm)	31 Dec 2017	31 Dec 2016
Provision for off-balance sheet commitments	1,305	1,206
Provision for undrawn loan facilities	88	35
<b>Total (refer to Note 12)</b>	<b>1,393</b>	<b>1,241</b>

*Movements in the provisions for contracted commitments were as follow:*

(CZKm)	Retirement benefits plan	Other provisions for contracted commitments	Total
Balance as of 1 January 2016	200	166	366
Charge	12	34	46
Release	0	(53)	(53)
Use	(9)	(10)	(19)
Accrual	4	0	4
Remeasurement	115	0	115
Foreign exchange difference	0	1	1
Balance as of 31 December 2016	322	138	460
Charge	21	78	99
Release	(11)	(36)	(47)
Use	0	(35)	(35)
Accrual	5	0	5
Remeasurement	28	0	28
Foreign exchange difference	0	(5)	(5)
<b>Balance as of 31 December 2017</b>	<b>365</b>	<b>140</b>	<b>505</b>



### 33 Deferred tax

Deferred tax is calculated from temporary differences between the tax bases and carrying values using tax rates effective in the periods in which the temporary tax differences are expected to be utilised.

*Net deferred tax assets are as follow:*

(CZKm)	31 Dec 2017	31 Dec 2016
Banking provisions and allowances	0	0
Allowances for assets	0	0
Non-banking provisions and allowances	17	30
Difference between accounting and tax net book value of assets	1	1
Remeasurement of retirement benefits plan – equity impact (refer to Note 39)	0	0
Revaluation of hedging derivatives – equity impact (refer to Note 40)	0	0
Revaluation of available-for-sale financial assets – equity impact (refer to Note 41)	0	0
Other temporary differences	0	0
<b>Net deferred tax assets</b>	<b>18</b>	<b>31</b>

*Net deferred tax liabilities are as follow:*

(CZKm)	31 Dec 2017	31 Dec 2016
Banking provisions and allowances	298	284
Allowances for assets	83	77
Non-banking provisions and allowances	4	16
Difference between accounting and tax net book value of assets	(324)	(323)
Remeasurement of retirement benefits plan – equity impact (refer to Note 39)	36	31
Revaluation of hedging derivatives – equity impact (refer to Note 40)	(43)	(2,667)
Revaluation of available-for-sale financial assets – equity impact (refer to Note 41)	(461)	(639)
Other temporary differences	142	156
<b>Net deferred tax liabilities</b>	<b>(265)</b>	<b>(3,065)</b>

Since 2007, the Bank has not reported any deferred tax arising from the revaluation of a foreign net investment.

*Movements in the net deferred tax assets/(liabilities) were as follow:*

(CZKm)	2017	2016
<b>Balance as of the beginning of the period</b>	<b>(3,034)</b>	<b>(3,853)</b>
Movement in the net deferred tax – profit and loss impact (refer to Note 14)	(19)	176
Movement in the net deferred tax – equity impact (refer to Notes 39, 40 and 41)	2,806	643
<b>Balance as of the end of the period</b>	<b>(247)</b>	<b>(3,034)</b>

### 34 Subordinated debt

In relation to optimising its capital structure, the Bank took on subordinated debt of EUR 100 million (equivalent to CZK 2,554 million) on 9 October 2017 (2016: CZK 0 million) which is part of Tier 2 regulatory capital and was granted by its parent company, Société Générale S.A. The subordinated debt is euro-denominated in order to better align the currency structure of the Bank's regulatory capital and risk-weighted assets. The subordinated debt bears an interest rate of 3-month EURIBOR plus 1.26%. It has a 10-year maturity but with the Bank having an option for early repayment after five years. The subordinated loan strengthened the Bank's capital buffer in response to increasing regulatory capital requirements while enhancing the Bank's capacity to grow risk-weighted assets.

## 35 Share capital

The Bank's share capital, entered in the Register of Companies on 11 February 2000, amounts to CZK 19,004,926,000 and consists of 190,049,260 ordinary bearer shares issued as uncertificated securities with a nominal value of CZK 100 each (ISIN: CZ0008019106). The number of shares authorised is the same as the number of shares issued. The share capital is fully paid up.

The Bank's shares are publicly traded on stock markets in the Czech Republic managed by the market organisers Burza cenných papírů Praha, a.s. (the Prague Stock Exchange) and RM-SYSTÉM, česká burza cenných papírů a.s. (the Czech Stock Exchange). Their transferability is not restricted.

Rights are attached to the ordinary shares in accordance with Act No. 90/2012 Coll., on Business Corporations and Co-operatives. No special rights are attached to the shares. Shareholders' voting rights are governed by the nominal value of their shares. The voting rights can only be eliminated on statutory grounds. The Bank cannot exercise voting rights attached to its own shares.

Shareholders are entitled to share in the Bank's profit (dividend) approved for distribution by the Annual General Meeting based on the Bank's financial results and in accordance with the conditions stipulated by generally binding legal regulations.

The right to payment of the dividend is time-barred from three years after its declared payment date. Pursuant to a resolution of the Annual General Meeting held in 2009, the Board of Directors will not plead the statute of limitations in order to bar by lapse of time the payment of dividends for the duration of 10 years from the date of dividend payment. After the lapse of 10 years from the date of dividend payment, the Board of Directors is obliged to plead the statute of limitations and to transfer the unpaid dividends to the retained earnings account.

In the event of a shareholder's death, his or her legal heir shall be entitled to exercise all rights attached to the shares. Upon the Bank's liquidation and dissolution, the means of liquidation are governed by the relevant generally binding legal regulations. The proposal for the distribution of the liquidation balance among shareholders is approved by the Annual General Meeting in proportion to the nominal values of the shares held by the Bank's shareholders.

*Set out below is a summary of the entities that hold more than 1% of the Bank's issued share capital as of 31 December 2017:*

Name of the entity	Ownership percentage
SOCIÉTÉ GÉNÉRALE SA	60.35%
Nortrust Nominees Limited	4.12%
Chase Nominees Limited	3.65%
Brown Brothers Harriman	2.68%
CLEARSTREAM BANKING, s.a.	2.37%
STATE STREET BANK AND TRUST COMPANY	2.31%
GIC PRIVATE LIMITED	1.79%
J.P. MORGAN BANK	1.45%

Société Générale S.A., being the only entity with a qualified holding in the Bank, and moreover as the parent company, is a French company limited by shares incorporated by a Deed approved through the issuance of a Decree on 4 May 1864 and is licensed as a bank. Under the legislative and regulatory provisions relating to financial institutions, notably the articles of the Monetary and Financial Code, the Company is subject to commercial laws, in particular Articles 210-1 et seq. of the French Commercial Code, as well as its Articles of Association.

As of 31 December 2017, the Bank held 1,193,360 of its own share in treasury at a cost of CZK 726 million (2016: 1,193,360 treasury shares at a cost of CZK 726 million).

### Capital management

The Basel III rules valid for capital regulation did not change the process for managing the Bank's regulatory capital adequacy, but they naturally were taken into account in setting the parameters for this process, in particular with regard to application of the combined capital buffer and additional Pillar 2 buffer above and beyond the minimum required capital ratio of 8.0%. The regulatory methodology was substantially stabilised in 2016 (in particular, the stacking order of capital buffers) and consequently an additional Pillar 2 buffer of 1.4% is applied to the Bank on top of the minimum required capital ratio of 8.0%. That means the total SREP (supervisory review and evaluation process) capital requirement (TSCR) is now 9.4%. A combined capital buffer of 6.0% is applied on top of the TSCR capital ratio, thus resulting in the required overall capital ratio (OCR) of 15.4% for the year 2017 (an increase of 0.9% in comparison with the previous year, mainly due to the newly applied countercyclical capital buffer and an increase in the systemic risk buffer). The combined capital buffer consists of the capital conservation buffer of 2.5%, the systemic risk buffer of 3.0% and, required for the first time in the Czech Republic, a countercyclical buffer of 0.5%. As its capital ratio stands well above the minimum required level, the Bank meets the required level of the overall capital ratio with an adequate reserve.

The required overall capital ratio (OCR) increases for the Bank to 15.5% as of 1 January 2018 (a rise of 0.1% compared to 2017 due to an increase of the additional Pillar 2 buffer to level 1.5%) and furthermore to 16.0% as of 1 July 2018 (rising by another 0.5% due to an increase of the countercyclical capital buffer in the Czech Republic to the 1.0% level).

The Bank manages its capital adequacy to ensure its sufficient level in an environment of changing regulatory requirements while allowing organic business growth and for potentially adverse macroeconomic development. Under the Basel III capital adequacy regulation, just as under the previous Basel II regulation, in addition to the usual reporting of the capital ratio (Pillar 1), the Bank must meet the requirements for evaluating required economic capital, stress testing and capital planning (Pillar 2). To determine the required economic capital, the Bank has selected methods close to the regulatory procedures applied for Pillar 1. Consequently, the necessary levels of economic and regulatory capital are very similar.

The Bank regularly simulates future developments under Pillar 2 based on the assumption of possible adverse external macroeconomic conditions that may either directly affect the Bank's profit or have implications resulting in deterioration in the Bank's transaction risk profile.

The Bank compiles hypothetical macroeconomic scenarios on the basis of which it estimates medium-term impacts on earnings and on transaction risk profiles. On this basis, the Bank acquires views concerning the changing volume of the risk-weighted assets (i.e. capital requirements) and the financial results while also taking into account the outlook for dividend payments and the level of the Bank's capital adequacy ratio.

The results of such stress testing are among those factors considered in determining the Bank's dividend policy, which is the primary tool for capital adequacy management in such situation that the Bank's capital is largely classified as Common Equity Tier 1 capital.

The Bank's capital consists principally of the following balances: share capital, reserve funds, retained earnings and Tier 2 subordinated debt (which was taken on by the Bank in 2017).

The Bank did not purchase its own shares into treasury during 2017. As of 31 December 2017, the Bank holds in total 1,193,360 treasury shares at a total cost of CZK 726 million purchased in previous years (2016: 1,193,360 treasury shares at a total cost of CZK 726 million). The acquisition of treasury shares had been approved by the Bank's General Meeting especially for the purpose of managing the Bank's capital adequacy.

In view of the facts that the capital requirements under Basel III regulation (the capital buffers in particular, typically the countercyclical buffer) can vary over time and a part of the implementing regulatory rules and the regulation itself are still being developed, the Bank is continuously monitoring and evaluating the forthcoming changes in regulatory requirements affecting the capital and capital adequacy. It analyses their potential impacts as part of the Bank's capital planning process.

The CNB, as the local regulatory authority, oversees the Bank's capital adequacy compliance on both separate and consolidated bases. During the past year, the Bank was in compliance with all regulatory requirements. The Bank also regularly prepares the regulatory report on Pillar 2 (i.e. internal capital adequacy assessment process) and submits it to the CNB.

### 36 Composition of cash and cash equivalents as reported in the Statement of Cash Flows

(CZKm)	31 Dec 2017	31 Dec 2016	Change in the year
Cash and current balances with central banks (refer to Note 16)	32,523	103,993	(71,470)
Amounts due from banks – current accounts with other banks (refer to Note 20)	295	788	(493)
Amounts due to central banks	(1)	(1)	0
Amounts due to banks – current accounts (refer to Note 28)	(8,842)	(3,168)	(5,674)
<b>Cash and cash equivalents at the end of the year</b>	<b>23,975</b>	<b>101,612</b>	<b>(77,637)</b>

## 37 Commitments and contingent liabilities

### Legal disputes

The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2017. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Bank has recorded a provision of CZK 16 million (2016: CZK 17 million) for these legal disputes (refer to Note 32). The Bank has also recorded a provision of CZK 5 million (2016: CZK 42 million) for costs associated with a potential payment of appurtenances on the pursued claims.

As of 31 December 2017, the Bank conducted a review of legal proceedings it had filed against other entities. The Bank has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Bank will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

### Commitments arising from the issuance of guarantees

Commitments from guarantees represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to the third parties. These assurances carry the same credit risk as do loans, and therefore the Bank makes provisions for these instruments (according to a customer's credit worthiness) on the same basis as is applicable to loans.

### Capital commitments

As of 31 December 2017, the Bank had capital commitments of CZK 888 million (2016: CZK 367 million), which include capital commitments in respect of current capital investment projects in the amount of CZK 624 million (2016: CZK 66 million).

### Commitments arising from the issuance of letters of credit

Documentary letters of credit are written, irrevocable commitments by the Bank on behalf of a customer (the mandatory) authorising a third party (the beneficiary) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. The Bank records provisions for these instruments (according to a customer's creditworthiness) on the same basis as is applicable to loans.

### Commitments to extend credit, undrawn loan commitments and overdrafts and approved overdraft loans

Principal off-balance sheet exposures include undrawn limits under framework agreements to provide financial services, approved overdraft loans, undrawn loan commitments, issued commitments to extend credit and unutilised facilities. The primary purpose of commitments to extend credit and framework agreements is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credit in the forms of loans or guarantees. In accordance with the IFRS definition of a conditional commitment, the Bank distinguishes between irrevocable and revocable commitments to extend credit and framework agreements. The irrevocability of commitments, framework agreements of undrawn loan commitments, unutilised overdrafts and approved overdraft loans results from contractual terms and conditions of the credit agreements (i.e. their use is not contingent upon customers' maintaining other specific credit standards). For irrevocable commitments or framework agreements, undrawn loan commitments, unutilised overdrafts and approved overdraft loans, the Bank recognises a provision when required (according to a customer's credit worthiness) in accordance with the same algorithm as for loans.

### Financial commitments and contingencies comprise the following:

(CZKm)	31 Dec 2017	31 Dec 2016
Non-payment guarantees including commitments to issued non-payment guarantees	34,461	36,248
Payment guarantees including commitments to issued payment guarantees	16,643	15,058
Committed facilities and unutilised overdrafts	8,227	6,333
Undrawn credit commitments	60,303	57,757
Unutilised overdrafts and approved overdraft loans	13,673	15,674
Unutilised limits under framework agreements to provide financial services	7,787	9,445
Open customer/import letters of credit not covered	898	755
Standby letters of credit not covered	1,024	1,091
Confirmed supplier/export letters of credit	794	22
<b>Total commitments and contingencies</b>	<b>143,810</b>	<b>142,383</b>

The risk associated with off-balance sheet credit commitments and contingent liabilities is assessed on the same basis as is that of loans to customers, taking into account the financial position and activities of the entity to which the Bank issued the guarantee and the collateral obtained. As of 31 December 2017, the Bank recorded provisions for these risks in the amount of CZK 1,393 million (2016: CZK 1,241 million). Refer to Note 32.

Set out below is a breakdown of financial commitments and contingencies by sector:

(CZKm)	31 Dec 2017	31 Dec 2016
Food industry and agriculture	9,655	10,318
Mining and extraction	460	665
Chemical and pharmaceutical industry	2,569	3,601
Metallurgy	4,969	4,488
Automotive industry	2,437	1,501
Manufacturing of other machinery	7,205	7,723
Manufacturing of electrical and electronic equipment	1,380	2,441
Other processing industry	1,754	1,932
Power plants, gas plants and waterworks	5,433	4,674
Construction industry	29,983	31,968
Retail	2,977	3,710
Wholesale	8,249	7,858
Accommodation and catering	464	400
Transportation, telecommunication and warehouses	7,291	9,134
Banking and insurance industry	5,231	8,164
Real estate	5,084	3,201
Public administration	8,247	4,201
Other industries	17,266	13,047
Individuals	23,156	23,357
<b>Total commitments and contingencies</b>	<b>143,810</b>	<b>142,383</b>

The majority of commitments and contingencies originate on the territory of the Czech Republic.

The collateral held in support of financial commitments and contingencies is broken out below by type:

	31 Dec 2017			31 Dec 2016		
(CZKm)	Total commitments and contingencies collateral*	Discounted commitments and contingencies collateral value**	Applied commitments and contingencies collateral value***	Total commitments and contingencies collateral*	Discounted commitments and contingencies collateral value**	Applied commitments and contingencies collateral value***
Guarantees of state or governmental institution	629	502	502	658	523	523
Bank guarantee	1,811	1,725	1,688	1,585	1,515	1,475
Guaranteed deposits	2,002	1,993	1,896	2,187	2,174	2,072
Pledge of real estate	13,589	8,514	7,198	11,629	7,231	5,990
Pledge of movable assets	118	12	12	84	8	8
Guarantee by legal entity	7,531	5,689	5,669	6,540	1,988	1,821
Guarantee by individual (natural person)	0	0	0	50	10	10
Pledge of receivables	3,082	0	0	1,939	0	0
Insurance of credit risk	782	743	743	1,554	1,476	1,476
Other	27	3	2	21	0	0
<b>Total nominal value of collateral</b>	<b>29,571</b>	<b>19,181</b>	<b>17,710</b>	<b>26,247</b>	<b>14,925</b>	<b>13,375</b>

\* The nominal value of the collateral is determined based on internal rules of the Bank (e.g. internal property valuation, current value of collateral, market value of securities, etc.).

\*\* The nominal value of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc.

\*\*\* The applied collateral value is the discounted collateral value reduced to the actual balance of the collateralised exposure.

In accordance with Act No. 427/2011, on Supplementary Pension Saving, and in accordance with the statutes of the Transformovaný fond KB Penzijní společnost, a.s. (hereafter only the “Fund”) created after 1 January 2013, the KB Penzijní společnost, a.s. guarantees at least a zero return for clients on an annual basis and must ensure that the value of assets in the Fund is always equal to or greater than the value of liabilities. Otherwise, KB Penzijní společnost, a.s. is required to contribute to the Fund assets necessary to make up the difference at latest within 30 days after the end of the quarter in which such circumstance was identified. These transferred assets constitute a special capital fund of the Fund and are primarily used to cover losses of the current year or accumulated losses from prior periods.

In accordance with the Fund’s conservative strategy and based on sensitivity analysis, the usage of the guarantee is not probable in the near future as of the financial statements date.

### 38 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. As of 31 December 2017, the Bank was controlled by Société Générale S.A., which owns 60.35% of its issued share capital.

A number of banking transactions are entered into with related parties in the normal course of business. These specifically include loans, deposits, transactions with derivative financial instruments and other types of transactions. These transactions are carried out on an arm’s length basis.

#### Amounts due to and from the Group subsidiaries

The following table summarises loans issued to the Group subsidiaries and their deposits with the Bank:

(CZKm)	31 Dec 2017	31 Dec 2016
Bastion European Investments S.A.	2,790	3,058
ESSOX s.r.o.	9,057	7,493
Factoring KB, a.s.	5,382	5,915
KB Real Estate, s.r.o.	452	483
Modrá pyramida stavební spořitelna, a.s.	14,411	12,900
PSA FINANCE ČESKÁ REPUBLIKA, s.r.o.	1,675	2,151
PSA FINANCE SLOVAKIA, s.r.o.	1,987	1,623
SG Equipment Finance Czech Republic s.r.o.	9,559	12,873
STD2, a.s.	383	0
<b>Total loans</b>	<b>45,696</b>	<b>46,496</b>
ESSOX s.r.o.	930	937
Factoring KB, a.s.	1	1
KB Penzijní společnost, a.s.	461	470
KB Real Estate, s.r.o.	57	53
Modrá pyramida stavební spořitelna, a.s.	4	2
NP 33, s.r.o.	0	17
Protos, uzavřený investiční fond, a.s.	63	79
PSA FINANCE ČESKÁ REPUBLIKA, s.r.o.	33	34
PSA FINANCE SLOVAKIA, s.r.o.	0	1
SG Equipment Finance Czech Republic s.r.o.	2,100	2,187
STD2, a.s.	1	0
VN 42, s.r.o.	407	419
<b>Total deposits</b>	<b>4,057</b>	<b>4,200</b>



*The following table summarises the fair value of financial derivatives to which the Bank is a party and in relation to the Group subsidiaries:*

(CZKm)	31 Dec 2017	31 Dec 2016
Modrá pyramida stavební spořitelna, a.s.	139	55
Protos, uzavřený investiční fond, a.s.	0	2
SG Equipment Finance Czech Republic s.r.o.	0	1
<b>Total positive fair value of financial derivatives</b>	<b>139</b>	<b>58</b>
Modrá pyramida stavební spořitelna, a.s.	344	711
Protos, uzavřený investiční fond, a.s.	46	5
SG Equipment Finance Czech Republic s.r.o.	1	0
<b>Total negative fair value of financial derivatives</b>	<b>391</b>	<b>716</b>

Modrá pyramida stavební spořitelna, a.s. owns mortgage bonds in a nominal value of CZK 29,300 million (2016: CZK 30,600 million) issued by the Bank. ESSOX s.r.o. owns mortgage bonds issued by the Bank in the nominal value of CZK 500 million (2016: CZK 629 million). KB Penzijní společnost, a.s. owns mortgage bonds issued by the Bank in the nominal value of CZK 417 million (2016: CZK 417 million).

As of 31 December 2017 and 2016, other amounts due to and from the Group subsidiaries were not significant.

*Interest income from loans granted to the Group subsidiaries:*

(CZKm)	2017	2016
Bastion European Investments S.A.	113	120
ESSOX s.r.o.	52	50
Factoring KB, a.s.	24	19
KB Real Estate, s.r.o.	15	16
Modrá pyramida stavební spořitelna, a.s.	23	2
PSA FINANCE ČESKÁ REPUBLIKA, s.r.o.	7	3
PSA FINANCE SLOVAKIA, s.r.o.	7	5
SG Equipment Finance Czech Republic s.r.o.	101	142
<b>Total interest from loans granted by the Bank</b>	<b>342</b>	<b>357</b>

In addition to interest on loans to the Bank's Group subsidiaries, other income in the year ended 31 December 2017 amounted to CZK 958 million (2016: CZK 356 million) and total expenses amounted to CZK 1,728 million (2016: CZK 1,747 million).

As of 31 December 2017, the Bank reported guarantees granted and undrawn credit commitments to the Group subsidiaries totalling CZK 578 million (2016: CZK 405 million).

## Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include the following:

(CZK)	31 Dec 2017		31 Dec 2016	
	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o. (Czech Republic)	6,185	0	5,146	0
ALD Automotive s.r.o. (Slovak Republic)	160	0	370	0
BRD – GROUPE Société Générale	22	0	30	0
Komerční pojišťovna, a.s.	615	559	1,587	1,521
PJSC Rosbank	205	0	146	0
SG Expressbank	56	0	15	0
SG New York	0	0	498	0
SG Marocaine de Banques	0	0	4	0
SG Zurich	175	0	176	0
SKB Banka D.D. Ljubljana	1	0	0	0
Société Générale – Banka Srbija	1	0	0	0
Société Générale China	1	0	3	0
Société Générale International	2,572	0	473	0
Société Générale Paris	7,674	4,633	8,392	4,311
Société Générale oddział w Polsce	1	0	2	0
Société Générale – Splitska Banka	0	0	11	0
<b>Total</b>	<b>17,668</b>	<b>5,192</b>	<b>16,853</b>	<b>5,832</b>

Principal balances owed to the Société Générale Group entities include the following:

(CZK)	31 Dec 2017		31 Dec 2016	
	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o. (Czech Republic)	368	0	368	0
ALD Automotive s.r.o. (Slovak Republic)	27	0	0	0
BRD – GROUPE Société Générale	79	0	8	0
Crédit du Nord	12	0	7	0
Inter Europe Conseil	0	0	0	0
Komerční pojišťovna, a.s.	2,184	439	2,532	46
PEMA Praha, spol. s r.o.	70	0	101	0
PJSC ROSBANK	1	1	0	0
SG Amsterdam	23	0	47	0
SG Banques au Liban	2	0	1	0
SG Bruxelles	0	0	50	0
SG Express Bank	2	0	0	0
SG ISSUER	1	0	1	0
SG Frankfurt	41	0	8	0
SG London	78	0	13	0
SG New York	16	0	1	0
SG Option Europe	1	0	0	0
SG Private Banking (Suisse)	67	0	184	0
SG Zurich	1	0	0	0
SGSS Nantes	11	0	3	0
Société Générale Bank & Trust	72	0	63	0
Société Générale Paris	38,729	6,988	22,938	7,025
Société Générale oddział w Polsce	98	0	1	0
SOGEPROM Česká republika, s.r.o.	5	0	5	0
Société Générale – Splitska Banka	0	0	1	0
<b>Total</b>	<b>41,888</b>	<b>7,427</b>	<b>26,332</b>	<b>7,071</b>

Amounts due to and from the Société Générale Group entities principally comprise balances of current and overdraft accounts, nostro and loro accounts, issued loans, interbank market loans and placements, deposited margins in favour of the counterparty and fair values of derivatives.

As of 31 December 2017, the Bank also carried off-balance sheet exposures to the Société Générale Group entities, of which off-balance sheet nominal assets and liabilities amounted to CZK 486,612 million (2016: CZK 371,922 million) and CZK 447,122 million (2016: CZK 341,528 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances and guarantees for credit exposures.

As of 31 December 2017 and 2016, the Bank also recorded other accounts receivable and payable from and to Société Générale Group entities the amounts of which are not significant.

During the year ended 31 December 2017, the Bank had total income of CZK 33,686 million (2016: CZK 22,334 million) and total expenses of CZK 33,358 million (2016: CZK 19,185 million) in relation to Société Générale Group entities. That income includes income from interbank deposits, fees from transactions with securities, profit from financial operations and interest income on hedging derivatives. Expenses comprise those of interbank deposits and subordinated debt, a loss from financial operations, interest expense on hedging derivatives and expenses related to the provision of management, consultancy and software services.

### Remuneration and amounts due from members of the Board of Directors and Supervisory Board

*Remuneration paid to the members of the Board of Directors and Supervisory Board during the years was as follows:*

(CZKm)	2017	2016
Remuneration to members of the Board of Directors*	56	58
Remuneration to members of the Supervisory Board**	5	6
<b>Total</b>	<b>61</b>	<b>64</b>

\* **Remuneration to members of the Board of Directors** includes wages paid and other compensation and benefits provided during the year ended 31 December 2017 to current and former directors for the duration of their membership. It also includes a part of bonuses awarded in 2017. The remuneration includes as well benefits arising to the Bank's employees under the collective agreement.

\*\* **Remuneration to members of the Supervisory Board** includes amounts paid during the year ended 31 December 2017 to current and former members of the Supervisory Board for the duration of their membership. Amounts for members of the Supervisory Board elected by employees additionally include income paid to them under their employment arrangements with the Bank for the duration of their membership. The remuneration also includes benefits arising to the Bank's employees under the collective agreement.

	31 Dec 2017	31 Dec 2016
Number of the Board of Directors members at the end of the period	6	5
Number of the Supervisory Board members at the end of the period	9	9

In respect of loans and guarantees as of 31 December 2017, the Bank recorded receivables from loans granted to members of the Board of Directors and Supervisory Board totalling CZK 12 million (2016: CZK 15 million). During 2017, draw-downs of CZK 0 million (2016: CZK 1 million) were made under the loans granted. Loan repayments during 2017 amounted to CZK 1 million (2016: CZK 1 million). Loans to resigning members amounted to CZK 2 million as of 31 December 2016.

## 39 Movements in the remeasurement of retirement benefits plan in the equity

(CZKm)	2017	2016
Remeasurement of retirement benefits plan as of 1 January	(162)	(47)
Deferred tax asset/(liability) as of 1 January	31	9
<b>Balance as of 1 January</b>	<b>(131)</b>	<b>(38)</b>
<b>Movements during the year</b>		
Gains/(losses) from remeasurement of retirement benefits plan	(28)	(115)
Deferred tax	5	22
	<b>(23)</b>	<b>(93)</b>
Remeasurement of retirement benefits plan as of 31 December	(190)	(162)
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	36	31
<b>Balance as of 31 December</b>	<b>(154)</b>	<b>(131)</b>

## 40 Movements in the revaluation of hedging instruments in the equity

In accordance with IAS 39, certain derivatives were designated as hedges. The changes in fair values of cash flow hedges are recorded in a separate line of equity in the hedging reserve.

(CZKm)	2017	2016
Cash flow hedge fair value as of 1 January	14,206	15,807
Deferred tax asset/(liability) as of 1 January	(2,667)	(2,971)
<b>Balance as of 1 January</b>	<b>11,539</b>	<b>12,836</b>
<b>Movements during the year</b>		
Gains/(losses) from changes in fair value (refer to Note 42(C))	(10,509)	2,405
Deferred tax	1,996	(456)
	<b>(8,513)</b>	<b>1,949</b>
Transferred to interest income/expense	(3,305)	(4,008)
Deferred tax	627	761
	<b>(2,678)</b>	<b>(3,247)</b>
Transferred to net profit/loss on financial operations	0	1
Deferred tax	0	0
	0	1
Transferred to personnel expenses	(3)	5
Deferred tax	1	(1)
	<b>(2)</b>	<b>4</b>
Change in the hedge of foreign currency risk of foreign net investment	142	(4)
	<b>142</b>	<b>(4)</b>
Cash flow hedge fair value as of 31 December	531	14,206
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	(43)	(2,667)
<b>Balance as of 31 December</b>	<b>488</b>	<b>11,539</b>

## 41 Movements in the revaluation of available-for-sale financial assets in the equity

(CZKm)	2017	2016
Reserve from fair value revaluation as of 1 January	3,361	5,032
Deferred tax asset/(liability) as of 1 January	(639)	(956)
<b>Balance as of 1 January</b>	<b>2,722</b>	<b>4,076</b>
<b>Movements during the year</b>		
Gains/(losses) from changes in fair value	(315)	(20)
Deferred tax	61	4
	<b>(254)</b>	<b>(16)</b>
(Gains)/losses from reclassified financial assets (refer to Note 18)	(618)	(691)
Deferred tax	117	131
	<b>(501)</b>	<b>(560)</b>
(Gains)/losses from sale	0	(960)
Deferred tax	0	182
	<b>0</b>	<b>(778)</b>
Reserve from fair value revaluation as of 31 December	2,428	3,361
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	(461)	(639)
<b>Balance as of 31 December</b>	<b>1,967</b>	<b>2,722</b>

## 42 Risk management and financial instruments

### (A) Credit risk

#### **Assessment of borrower's credit rating**

The assessment of credit risk is based on quantitative and qualitative criteria, which leads to a rating assignment. The Bank uses several types of rating models, depending on the type and profile of the counterparty and the types of transactions. As a result, specific ratings are assigned to both the Bank's clients and to specific client transactions. The same process of rating assignment is applied in relevant cases to respective guarantors and sub-debtors, which enables better assessment of the quality of accepted guarantees and collaterals.

In 2017, the Bank focused on updating selected credit risk models in order optimally to reflect the current macroeconomic situation and goals set by the Bank as well as on increasing effectiveness in monitoring the risk profiles of individual client portfolios and the quality of tools and models for credit risk management. The Bank also continued in harmonising governance, usage of rating models and monitoring process within the Group.

As in previous years, the results of regular stress testing played an important role, allowing more precise estimates of the expected intensity of credit risk for the ensuing periods and thus optimisation of the Bank's credit risk management tools and more accurate estimation of expected future losses.

#### **(a) Business clients and municipalities**

For entrepreneurs, corporate clients and municipalities, the Bank uses the obligor rating (expressed on the 22 grade Société Générale rating master scale) with the aim to evaluate the counterparty's Probability of Default (PD) and the Loss Given Default (LGD) rating to assess the quality of available guarantees and collaterals and to evaluate the potential loss from counterparty transactions. These models are also used for regular updates of Expected Loss (EL) and Unexpected Loss (UL) for all client exposures reported in accordance with the Basel III requirements.

For large and medium-sized clients, the obligor rating is a combination of the financial rating based primarily on data in the financial statements and an economic rating obtained through the evaluation of non-financial information relating to a particular client.

In the entrepreneurs and small companies segment, the client's obligor rating is a combination of financial, non financial and personal data, data on client behaviour within the Bank and information from external credit bureaus. When clients are funded via simple products, the setting of the rating is alternatively limited to the evaluation of data on clients' behaviour within the Bank (behavioural rating).

In the municipalities segment, the obligor rating is a combination of the financial rating based on data in the financial statements and of an economic rating acquired through the assessment of non-financial information relating to a specific municipality.

The Bank is also using a dedicated rating model for housing co-operatives and association of owners. A special model for real estate developers and investors is currently in the validation phase.

#### **(b) Ratings for banks and sovereigns**

For banks, other financial institutions (namely insurance companies, brokers and funds) and for sovereigns (central banks and central governments), the Bank uses economic rating models developed by Société Générale.

#### **(c) Ratings for individual clients**

The Bank uses two types of ratings with the aim of evaluating default risk for individuals: (1) the application rating, which results from an evaluation of clients' personal data, data on the behaviour within the Bank, and data available from external credit bureaus; and (2) a behavioural rating which is based on evaluating information on the clients' behaviour within the Bank. The application rating is primarily used for active applications of clients for funding, while the behavioural rating (which includes the calculation of indicative limits for simple products with low exposure) is used for active offers of funding by the Bank. The behavioural rating of clients is concurrently used as an input for regular updates of the probability of default of all client exposures reported in accordance with the Basel III requirements.

#### **(d) Internal register of negative information**

The Bank maintains an internal register of negative information. The register integrates the maximum quantity of available internal and external negative information on subjects related to the credit process. It includes algorithms for evaluating the negative information and contributes substantially to protecting the Bank from risky entities.

(e) **Credit bureaus**

The evaluation of data from credit bureaus is one of the principal factors influencing the assessment of applications for client funding, and especially so in the retail client segments (individuals and small businesses).

(f) **Credit fraud prevention**

The Bank uses an automated system for the detection of credit frauds and also for co-ordinated reactions to credit fraud attacks. The system is fully integrated with the Bank's main applications. The system is regularly updated to reflect current market trends. Development of processes and controls preventing credit frauds in the small business segment was initiated in 2017, and this work will continue through 2018.

**Credit concentration risk**

Credit concentration risk is actively managed as a part of overall credit risk management utilising standard tools: credit risk assessment, setting of internal limits, use of risk mitigation techniques, regular reporting, producing of sector analyses and stress testing. The Bank maintains its objective not to take on any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, countries, selected industry sectors and collateral providers. The system of internal limits is established so that the Bank complies with the regulatory limits set by legislation in respect of concentration risk. Refer to Notes 21 and 37 for quantitative information about this type of risk.

**The Bank's maximum credit exposure as of 31 December 2017:**

(CZKmn)	Total exposure			Collateral applied		
	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
<b>Current balances with central banks</b>	<b>22,453</b>	<b>x</b>	<b>22,453</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Financial assets at fair value through profit or loss</b>	<b>19,369</b>	<b>x</b>	<b>19,369</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Positive fair value of hedging financial derivatives</b>	<b>13,017</b>	<b>x</b>	<b>13,017</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Available-for-sale financial assets</b>	<b>23,677</b>	<b>x</b>	<b>23,677</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Amounts due from banks</b>	<b>232,289</b>	<b>2,866</b>	<b>235,155</b>	<b>181,250</b>	<b>119</b>	<b>181,369</b>
<b>Loans and advances to customers</b>	<b>545,654</b>	<b>140,944</b>	<b>686,598</b>	<b>258,642</b>	<b>17,591</b>	<b>276,233</b>
– Individuals	242,056	23,156	265,212	192,423	5,171	197,594
of which: mortgage loans	217,695	15,745	233,440	188,282	5,158	193,440
consumer loans	20,502	49	20,551	3,665	4	3,669
– Corporates**	296,945	117,788	414,733	66,219	12,420	78,639
of which: top corporate clients	155,423	69,962	225,385	36,168	7,029	43,197
– Debt securities	3,635	x	3,635	0	x	0
– Other amounts due from customers	3,018	x	3,018	0	x	0
Held-to-maturity investments	56,936	x	56,936	0	x	0
<b>Total</b>	<b>913,395</b>	<b>143,810</b>	<b>1,057,205</b>	<b>439,892</b>	<b>17,710</b>	<b>457,602</b>

\* Undrawn amounts, commitments, guarantees, etc.

\*\* This item also includes loans provided to individual entrepreneurs.

The maximum credit exposure is presented on a gross basis (i.e. without the impact of allowances).



*The Bank's maximum credit exposure as of 31 December 2016:*

(CZKm)			Total exposure		Collateral applied	
	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
<b>Current balances with central banks</b>	<b>94,997</b>	<b>x</b>	<b>94,997</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Financial assets at fair value through profit or loss</b>	<b>30,482</b>	<b>x</b>	<b>30,482</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Positive fair value of hedging financial derivatives</b>	<b>21,614</b>	<b>x</b>	<b>21,614</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Available-for-sale financial assets</b>	<b>31,411</b>	<b>x</b>	<b>31,411</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Amounts due from banks</b>	<b>58,003</b>	<b>1,141</b>	<b>59,144</b>	<b>10,901</b>	<b>54</b>	<b>10,955</b>
<b>Loans and advances to customers</b>	<b>539,123</b>	<b>141,242</b>	<b>680,365</b>	<b>245,856</b>	<b>13,321</b>	<b>259,177</b>
– Individuals	231,004	23,357	254,361	176,587	3,968	180,555
of which: mortgage loans	207,823	16,150	223,973	172,421	3,965	176,386
consumer loans	19,773	94	19,867	4,166	4	4,170
– Corporates**	304,855	117,885	422,740	69,269	9,353	78,622
of which: top corporate clients	165,673	75,191	240,864	36,036	4,309	40,345
– Debt securities	3,193	x	3,193	0	x	0
– Other amounts due from customers	71	x	71	0	x	0
Held-to-maturity investments	62,425	x	62,425	0	x	0
<b>Total</b>	<b>838,055</b>	<b>142,383</b>	<b>980,438</b>	<b>256,757</b>	<b>13,375</b>	<b>270,132</b>

\* Undrawn amounts, commitments, guarantees, etc.

\*\* This item also includes loans provided to individual entrepreneurs.

The maximum credit exposure is presented on a gross basis (i.e. without the impact of allowances).

### Classification of receivables

The Bank classifies its receivables arising from financial activities into five categories in accordance with CNB Regulation No. 163/2014. The Standard and Watch categories represent non-default while Substandard, Doubtful and Loss represent default. The classification reflects both quantitative criteria (payment discipline, financial data) and qualitative criteria (e.g. in-depth client knowledge). The classification of individuals reflects also the default sharing principle for co-debtors and guarantors of defaulted receivables in accordance with the Basel III principles.

The structure of the credit portfolio according to the classification is regularly reported to the CNB and to investors.

When forbearance measures are granted, the forborne exposures are given default status (i.e. are classified as Substandard, Doubtful or Loss according to the CNB classification). The forbearance classification is discontinued after fulfilment of the following pre-defined conditions:

- I. After 12 months, reclassification of the forborne exposures to performing (i.e. classified as Standard or Watch) is possible based on an analysis of the debtor's financial condition;
- II. This is followed by a minimum 2-year probation period.

In addition, proper payment must be made throughout the probation period (i.e. the material days past due, with materiality being set identically as for defaulted receivables) must not exceed 30 days. Otherwise, the exposure is downgraded back to default status.

### Characteristics of receivables that are not classified

Pursuant to the regulation issued by the CNB, the Bank does not classify other amounts due from customers. These amounts consist of non-credit receivables that principally originated from the payment system, fraudulent withdrawals, bank cheques, receivables associated with purchases of securities (on behalf of clients) that have not been settled, and receivables that arise from business arrangements that do not represent financial activities, specifically receivables arising from outstanding rental payments on non-residential premises, sale of real estate and prepayments made.

## Allowances for receivables

Depending on the client segment, materiality, risk profile and characteristics of the receivables, allowances are created either: (i) taking into account the present value of expected future cash flows while considering all available information, including the estimated value of collateral foreclosure and the expected duration of the recovery process; or (ii) according to models using historical delinquency statistics regularly updated based on the latest loss observations and new risk drivers reflecting the phase of the business cycle; or (iii) using models based on probabilities of default and loss given default so long as the impairment event does not occur and for impaired loans these are recorded individually or based on models.

The following table breaks out impaired customer loans (Substandard, Doubtful and Loss) according to type of loss estimation:

(CZKm)	31 Dec 2017		31 Dec 2016	
	Individually	Statistical model	Individually	Statistical model
Individuals	0	5,221	0	6,362
Corporates*	6,754	2,661	8,177	2,580
<b>Total</b>	<b>6,754</b>	<b>7,882</b>	<b>8,177</b>	<b>8,942</b>

\* This item also includes loans granted to individual entrepreneurs.

As of 31 December 2017, the Bank reported the following loans not past due and loans past due, not impaired:

(CZKm)	Loans not past due	Loans past due, not impaired						Total
		1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	
<b>Banks</b>								
– Standard	230,988	0	0	0	0	0	0	230,988
– Watch	1,219	82	0	0	0	0	82	1,301
<b>Total</b>	<b>232,207</b>	<b>82</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>82</b>	<b>232,289</b>
<b>Customers</b>								
– Standard	515,666	2,807	8	0	3	0	2,818	518,484
– Watch	5,339	218	247	76	1	0	542	5,881
<b>Total</b>	<b>521,005</b>	<b>3,025</b>	<b>255</b>	<b>76</b>	<b>4</b>	<b>0</b>	<b>3,360</b>	<b>524,365</b>

As of 31 December 2016, the Bank reported the following loans not past due and loans past due, not impaired:

(CZKm)	Loans not past due	Loans past due, not impaired						Total
		1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	
<b>Banks</b>								
– Standard	56,051	179	0	0	0	0	179	56,230
– Watch	1,773	0	0	0	0	0	0	1,773
<b>Total</b>	<b>57,824</b>	<b>179</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>179</b>	<b>58,003</b>
<b>Customers</b>								
– Standard	509,632	2,622	13	1	0	0	2,636	512,268
– Watch	5,882	241	272	77	0	0	590	6,472
<b>Total</b>	<b>515,514</b>	<b>2,863</b>	<b>285</b>	<b>78</b>	<b>0</b>	<b>0</b>	<b>3,226</b>	<b>518,740</b>

The amount of the collateral applied in respect of loans past due, not impaired was CZK 1,455 million (2016: CZK 1,704 million).

### **Loan collateral**

The Bank uses collateralisation as one of its techniques for mitigating credit risk. The risk management related to collateralisation is performed by departments within the Risk Management Arm independently of the Bank's business lines.

The Bank has fully implemented within its internal system the rules for assessing collateral's eligibility according to CNB Regulation No. 163/2014. In compliance with the CNB validation, the Bank uses the Advanced Internal Ratings-Based (A-IRB) approach. For clients of the Slovak branch, the Bank uses the Standardised (STD) approach for assessing collateral eligibility.

The recognised value of collateral is set based on the Bank's internal rules for collateral valuation and discounting. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral sale, length of sale, the historical experience of the Bank, as well as collateral eligibility according to the CNB regulation, bankruptcy/insolvency rules and other regulations. Specifically, for all real estate collateral, which is the most common type of collateral, the Bank uses independent valuations performed or supervised by the Bank's dedicated specialised internal department. Collateral values reflected in the calculation of capital requirements and other processes (regulatory exposure management, granting process, creation of provisions and reserves) involve the fulfilment of collateral eligibility according to CNB Regulation No. 163/2014.

The Bank (except for the Slovak branch) uses on-line connection to the Land Register for reviewing and acquiring data on pledged real estates in granting mortgages or other loans secured by real estates and for regular monitoring of selected events that may put the Bank's pledge right to real estate at risk.

### **Real estate collateral valuation**

Activities related to the valuation of real estates obtained as collaterals for corporate and retail loans are independent from the Bank's business processes. The valuation process is managed and controlled by a specialised internal department that co-operates with various external valuation experts.

In 2017, together with the principal activity involving real estate valuation, the Bank focused mainly upon ongoing monitoring of the real estate market with the aim to promptly identify any adverse development and to take appropriate measures as required. The Bank monitors both the residential and commercial real estate markets. An integral component of that monitoring is the revaluation of selected real estate depending on the Basel III requirements. As a result of the statistical monitoring of market prices for residential real estates, adjustment is performed regularly.

### **Recovery of receivables from borrowers**

The Bank responded progressively to the changing legal environment and its influence on the collection of receivables. Given the size of the portfolio in recovery, the Bank continued improving the efficiency of the recovery process. These efforts also involved improving efficiency in using external recovery capacities. During 2017, the Bank continued in regular sales of uncollateralised and collateralised retail receivables to selected qualified investors so that the maximum achievable recovery rate is obtained.

The Bank was increasingly attentive to utilising the Insolvency Act in the process of collecting receivables from both retail and corporate clients. The Bank plays an active role in the insolvency process, from the position of secured creditor, member of the creditors committee or representative of creditors, whether in bankruptcy proceedings or in reorganisations, both of which are used by the Bank depending on the given debtor's circumstances and the attitudes of other creditors.

### **Credit risk hedging instruments**

The Bank has not entered into any credit derivative transactions to hedge or reallocate its credit exposures.

### **Credit risk of financial derivatives**

The daily calculation of counterparty risk associated with financial derivatives is based on the Credit Value at Risk (CVaR) indicator. This indicator projects the potential adverse development of the market value of a derivative and the potential loss that the Bank may incur if a counterparty fails to fulfil its obligations. The maximum potential exposure is calculated at the 99% probability level and depends on the current market value and type of derivative product, the time remaining until maturity of the derivative transaction, as well as the nominal value and volatility of the underlying assets.

As of 31 December 2017, the Bank was exposed to credit exposure of CZK 113,370 million (2016: CZK 23,021 million) on financial derivative instruments and repo operations involving a central bank (expressed in CVaR). This amount represents the gross replacement cost at market rates as of 31 December 2017 for all outstanding agreements. The netting agreement and parameters of collateral agreement are taken into account where applicable.

The Bank puts limits on exposures to counterparties from financial derivatives in order to avoid excessive credit exposures to each client that could arise from movements in market prices. On a daily basis, the Bank monitors compliance with limits. If these are exceeded, an appropriate alert is triggered and action is taken when relevant. In the event that the limit breach is triggered by the deliberate action of a dealer ("active limit breach"), such behaviour is penalised. The Board of Directors is informed about active limit breaches on a regular basis.

## **(B) Market risk**

### **Segmentation of the Bank's financial operations**

For market risk management purposes, the Bank's activities are internally separated into two books: the Market Book and the Structural Book. The Market Book consists of transactions initiated by investment banking activities and the treasury desk (interbank and individually priced deposits/loans, repos/reverse repos, securities classified as held for trading, derivatives originated by investment banking). The Structural Book consists principally of business transactions (lending, accepting deposits, amounts due to and from customers), hedging transactions relevant to the Structural Book, and other transactions not included in the Market Book.

### **Products generating market risk**

Products that are traded by the Bank and generate market risk include interbank loans and deposits, currency transactions (spots, swaps, forwards), interest rate instruments (interest rate swaps, cross currency swaps, forward rate agreements, interest rate futures and futures on debt securities), government and corporate bonds, bills of exchange programmes and cash and carry exposure in emission allowances.

More complex derivatives (options, commodity derivatives, structured derivatives) which are being sold to clients are immediately offset on the market by doing "back-to-back" trades in the interbank market, mostly with Société Générale. This ensures that the Bank is not exposed to market risks associated with these derivatives (e.g. volatility risk, correlation risk, etc.).

### **Market risk in the Market Book**

The Bank has developed a system of market risk limits with the objective of limiting potential losses due to movements in market prices by limiting the size of the risk exposure.

Since 2016, in addition to measuring and limiting market risk at the level of the Market Book as whole, the Bank measures and limits the market risks for the trading and treasury activities separately.

The Bank monitors compliance with all limits on a daily basis, and if these are exceeded the Bank takes corrective action to reduce the risk exposure. The Board of Directors is informed on a quarterly basis about developments in the exposure to market risk.

In order to measure the extent of market risk inherent in the activities of the Market Book, the Bank uses the one-day historical 99% Value-at-Risk (hereafter only "VaR") concept. VaR is calculated using full revaluation of the position by means of historical market price scenarios. This method reflects correlations between various financial markets and underlying instruments on a non-parametric basis, inasmuch as it uses scenarios simulating one-day variations of relevant market parameters over a period of time limited to the past 260 business days. The resulting 99% VaR indicator captures the loss that would be incurred after eliminating the 1% of the most unfavourable occurrences. This estimate is calculated as the average of the second and the third largest potential losses out of the 260 considered scenarios.

The VaR for a one-day horizon with a confidence level of 99% was CZK -20 million as of 31 December 2017 (2016: CZK -16 million). The average VaR was CZK -16 million in 2017 (2016: CZK -16 million).

The accuracy of the VaR model is validated through a back-testing calculation, whereby actual trading results and hypothetical results (i.e. results excluding deals closed during the day) are compared with the VaR results. Actual results should not exceed VaR more frequently than on 1% of the days within a given period.

In addition, the Bank performs stress tests on a daily basis which capture losses potentially generated by larger shocks. These stress events have a lower probability of occurrence than do VaR scenarios, and they measure potential losses relevant to the risk exposure in the Market Book. Several types of stress tests for foreign exchange, interest rate and CO<sub>2</sub> allowance cash and carry exposures are used. These are developed either based on actual crisis situations in the past (such as the Greek crisis in 2010) or from a hypothetical crisis that could negatively influence the performance of the Market Book.

Such additional specific metrics as sensitivities to market parameters or size of exposure are used to obtain a detailed picture of risks and strategies.

The Bank complies with Société Générale Group's VaR and stress tests methodology and uses the Group's software for market risk management.

## Market risk in the Structural Book

The Bank manages foreign exchange risk so as to minimise risk exposures. In order to achieve this, the foreign exchange position of the Structural Book is measured on a daily basis and subsequently hedged according to established rules. For the purpose of hedging foreign exchange positions within the Structural Book, the Bank uses standard currency instruments in the interbank market, such as currency spots and forwards.

Interest rate risk within the Structural Book is monitored and measured using a static gap analysis, sensitivity of net present value to a parallel shift of the yield curve, and sensitivity of net interest income to a parallel shift of the yield curve.

The indicators are monitored separately for CZK, USD, EUR, and the sum of other foreign currencies.

The indicator of the Bank's sensitivity to a change in market interest rates is measured based upon the assumption of an instantaneous, one-off and adverse parallel shift of the market yield curve by 1% p.a. It is determined as the present value of the costs of closing out the Bank's open interest rate position after the adverse change of interest rates has occurred. As of 31 December 2017, the CZK interest rate risk sensitivity was CZK 403 million (2016: CZK -533 million), the EUR sensitivity was CZK -3 million (2016: CZK 71 million), the USD sensitivity was CZK -9 million (2016: CZK 8 million), and for other currencies it was CZK -6 million (2016: CZK -1 million) for the hypothetical assumption of a 1% change in market interest rates. The Bank is limited by this indicator, and the level of the limit is determined to be approximately 2% of capital.

In order to hedge against interest rate risk within the Structural Book, the Bank uses both standard derivative instruments available in the interbank market (such as forward rate agreements and interest rate swaps) and appropriate investments into securities or a favourable selection of interest rate parameters for other assets and liabilities.

## (C) Financial derivatives

The Bank operates a system of market risk and counterparty limits designed to restrict disproportionate exposures due to movements in market prices and counterparty concentrations. The Bank also monitors adherence to all limits on a daily basis. It follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

The following tables set out nominal and fair values of financial derivative instruments categorised as held for trading and hedging.

*Financial derivative instruments designated as held for trading are as follow:*

(CZKm)	31 Dec 2017 Nominal value		31 Dec 2016 Nominal value		31 Dec 2017 Fair value		31 Dec 2016 Fair value	
	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
<b>Interest rate instruments</b>								
Interest rate swaps	875,881	875,881	686,106	686,106	7,775	8,591	9,720	10,107
Interest rate forwards and futures*	84,251	84,251	2,986	2,986	1	9	1	0
Interest rate options	27,209	27,209	39,957	39,957	50	50	58	58
<b>Total interest rate instruments</b>	<b>987,341</b>	<b>987,341</b>	<b>729,049</b>	<b>729,049</b>	<b>7,826</b>	<b>8,650</b>	<b>9,779</b>	<b>10,165</b>
<b>Foreign currency instruments</b>								
Currency swaps	323,477	322,592	203,110	203,209	2,390	1,536	1,966	2,017
Cross currency swaps	153,535	153,729	138,556	138,558	3,940	3,562	4,445	3,993
Currency forwards	91,681	93,698	52,210	51,868	511	2,161	377	295
Purchased options	61,066	61,322	66,709	66,895	1,283	0	1,276	0
Sold options	61,321	61,065	66,895	66,709	0	1,283	0	1,276
<b>Total currency instruments</b>	<b>691,080</b>	<b>692,406</b>	<b>527,480</b>	<b>527,239</b>	<b>8,124</b>	<b>8,542</b>	<b>8,064</b>	<b>7,581</b>
<b>Other instruments</b>								
Forwards on emission allowances	3,646	3,836	4,194	4,052	217	407	400	260
Commodity forwards	3,661	3,661	4,162	4,162	109	106	148	145
Commodity swaps	10,784	10,784	9,079	9,079	464	456	622	605
Purchased commodity options	36	36	424	424	0	0	24	0
Sold commodity options	36	36	424	351	0	0	0	24
<b>Total other instruments</b>	<b>18,163</b>	<b>18,353</b>	<b>18,283</b>	<b>18,068</b>	<b>790</b>	<b>969</b>	<b>1,194</b>	<b>1,034</b>
<b>Total</b>	<b>1,696,584</b>	<b>1,698,100</b>	<b>1,274,812</b>	<b>1,274,356</b>	<b>16,740</b>	<b>18,161</b>	<b>19,037</b>	<b>18,780</b>

\* Fair values include only forwards. Regarding futures, the Bank places funds on a margin account that is used on a daily basis to settle fair value changes. Receivables arising from these margin accounts are reported within other assets.

Financial derivative instruments designated as held for trading are shown below at nominal values by remaining contractual maturity as of 31 December 2017:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
<b>Interest rate instruments</b>				
Interest rate swaps	105,601	507,794	262,486	875,881
Interest rate forwards and futures*	73,869	10,382	0	84,251
Interest rate options	2,341	23,071	1,797	27,209
<b>Total interest rate instruments</b>	<b>181,811</b>	<b>541,247</b>	<b>264,283</b>	<b>987,341</b>
<b>Foreign currency instruments</b>				
Currency swaps	311,991	11,486	0	323,477
Cross currency swaps	26,422	80,098	47,015	153,535
Currency forwards	52,095	37,266	2,320	91,681
Purchased options	36,601	24,465	0	61,066
Sold options	36,672	24,649	0	61,321
<b>Total currency instruments</b>	<b>463,781</b>	<b>177,964</b>	<b>49,335</b>	<b>691,080</b>
<b>Other instruments</b>				
Forwards on emission allowances	2,929	717	0	3,646
Commodity forwards	3,661	0	0	3,661
Commodity swaps	9,219	1,565	0	10,784
Purchased commodity options	36	0	0	36
Sold commodity options	36	0	0	36
<b>Total other instruments</b>	<b>15,881</b>	<b>2,282</b>	<b>0</b>	<b>18,163</b>
<b>Total</b>	<b>661,473</b>	<b>721,493</b>	<b>313,618</b>	<b>1,696,584</b>

\* The remaining contractual maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off-balance sheet exposures are reversed.

Financial derivative instruments designated as held for trading are shown below at nominal values by remaining contractual maturity as of 31 December 2016:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
<b>Interest rate instruments</b>				
Interest rate swaps	98,065	385,099	202,942	686,106
Interest rate forwards and futures*	2,986	0	0	2,986
Interest rate options	946	37,082	1,929	39,957
<b>Total interest rate instruments</b>	<b>101,997</b>	<b>422,181</b>	<b>204,871</b>	<b>729,049</b>
<b>Foreign currency instruments</b>				
Currency swaps	200,604	2,506	0	203,110
Cross currency swaps	18,271	68,486	51,799	138,556
Currency forwards	40,275	11,935	0	52,210
Purchased options	38,442	28,267	0	66,709
Sold options	38,538	28,357	0	66,895
<b>Total currency instruments</b>	<b>336,130</b>	<b>139,551</b>	<b>51,799</b>	<b>527,480</b>
<b>Other instruments</b>				
Forwards on emission allowances	2,281	1,913	0	4,194
Commodity forwards	4,162	0	0	4,162
Commodity swaps	7,059	2,020	0	9,079
Purchased commodity options	402	22	0	424
Sold commodity options	402	22	0	424
<b>Total other instruments</b>	<b>14,306</b>	<b>3,977</b>	<b>0</b>	<b>18,283</b>
<b>Total</b>	<b>452,433</b>	<b>565,709</b>	<b>256,670</b>	<b>1,274,812</b>

\* The remaining contractual maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off-balance sheet exposures are reversed.



*Financial derivative instruments designated as hedging are as follow:*

(CZKm)	31 Dec 2017 Nominal value		31 Dec 2016 Nominal value		31 Dec 2017 Fair value		31 Dec 2016 Fair value	
	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate swaps for cash flow hedging	0	0	619,884	619,885	0	0	21,099	6,031
Interest rate swaps for fair value hedging	697,928	697,928	24,116	24,116	10,697	10,078	166	2,395
Cross currency swaps for cash flows hedging	52,456	50,145	41,099	42,110	2,318	111	348	946
Forwards on stocks for cash flow hedging	52	52	49	49	2	0	1	1
<b>Total</b>	<b>750,436</b>	<b>748,125</b>	<b>685,148</b>	<b>686,160</b>	<b>13,017</b>	<b>10,189</b>	<b>21,614</b>	<b>9,373</b>

*Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2017:*

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps for cash flow hedging	0	0	0	0
Interest rate swaps for fair value hedging	112,224	325,255	260,449	697,928
Cross currency swaps for cash flow hedging	9,348	29,769	13,339	52,456
Forwards on stocks for cash flow hedging	20	32	0	52
<b>Total</b>	<b>121,592</b>	<b>355,056</b>	<b>273,788</b>	<b>750,436</b>

*Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2016:*

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps for cash flow hedging	104,258	297,424	218,202	619,884
Interest rate swaps for fair value hedging	0	6,289	17,827	24,116
Cross currency swaps for cash flow hedging	8,235	31,631	1,233	41,099
Forwards on stocks for cash flow hedging	19	30	0	49
<b>Total</b>	<b>112,512</b>	<b>335,374</b>	<b>237,262</b>	<b>685,148</b>

*Shown below are the undiscounted cash flows from derivatives designated for cash flow hedging according to the periods within which they are expected to affect profit or loss:*

(CZKm)	31 Dec 2017			31 Dec 2016		
	Up to 1 year	1 to 5 years	Over 5 years	Up to 1 year	1 to 5 years	Over 5 years
Floating cash flows from cash flow hedging derivatives	35	68	17	(284)	(1,440)	(1,221)

The Bank treats as hedges only those contracts for which it is able to demonstrate that all criteria set out in IAS 39 for recognising the transactions as hedges have been met.

In November 2017, the Bank decided to change the hedging relationships of the interest rate swaps from the cash flow hedges (CFH) portfolio to the fair value hedges (FVH) portfolio for interest rate risk in order to unify and harmonise hedging strategy within Société Générale Group. At the date of reclassification, the associated gains that were recognised for the CFH portfolio in other comprehensive income as effective hedge were insignificant.

**During 2017, the Bank recorded the following hedges:**

1. Interest rate risk hedging:
  - a. The fair values of long-term loans provided and of investments into long-term government securities classified into the 'Available-for-sale financial assets' portfolio and investments into long-term securities classified into the 'Loans and advances to customers' portfolio are hedged by interest rate swaps and cross currency swaps, respectively;
  - b. The fair values of issued long-term mortgage bonds classified into the 'Securities issued' portfolio are hedged by interest rate swaps;
  - c. The fair values of fixed rate deposits, loans taken or repos are hedged by interest rate swaps;
  - d. Future cash flows from a portfolio of current assets traded on the interbank market and from loans to clients are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's Statement of Income on an ongoing basis);
  - e. Future cash flows from a portfolio of short-term liabilities traded on the interbank market and liabilities to clients are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's Statement of Income on an ongoing basis);
  - f. The fair values of a portfolio of current accounts from clients are hedged by a portfolio of interest rate swaps.
2. Foreign exchange risk hedging:
  - a. In selected material cases, the Bank hedges the future cash flows of firm commitments arising from the Bank's contractual obligations (e.g. contractual payments to third parties in a foreign currency) or receivables of the Bank (e.g. dividends). The hedging instrument consists of foreign currency assets (e.g. short-term loans on the interbank market) or foreign currency liabilities (e.g. short-term client liabilities), respectively;
  - b. The Bank hedges the fair value of Visa Inc. preferred shares. Hedging instruments are foreign currency liabilities (short-term client liabilities).
3. Share price risk hedging:
  - a. A portion of the bonus of selected Bank employees is paid in cash equivalents of the Komerční banka, a.s. share price. The Bank hedges the risk of change in the Komerční banka, a.s. share price. Hedging instruments are forwards on stocks.
4. Hedging of an investment in foreign subsidiaries:
  - a. The foreign exchange risk associated with investments in subsidiaries is hedged by selected foreign currency liabilities (e.g. short-term client liabilities).

The Bank does not report any instance of hedge accounting being applied to a highly probable forecasted transaction that is no longer anticipated to be effected.

Further information on hedges is provided in Notes 3, 5 and 7 to these Financial Statements.

## **(D) Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent that instrument is exposed to interest rate risk. Market developments have led to a situation where interest rates are negative in certain currencies. This fact does not change the essence of interest rate risk measurement and management because the principle of recognising changes in interest rates over time remains unchanged just as the concept of hedging against interest rate risk by matching volumes with changing values within the given period remains valid. Due to legal and technical limitations, methods to prevent negative rates from being applied at the client's level can be applied with the objective of maintaining accordance between a transaction's contractual and economic natures. With respect to ongoing market practice, client deposits are seeing the introduction of deposit fees, which constitute a specific response to the existence of negative market interest rates and which also comply with the requirements given by limitations ensuing from the existing legal framework.

The Bank uses internal models for managing interest rate risk. The objective of these models is to describe the expected economic behaviour of the Bank's clients when market interest rates fluctuate. It is the policy of the Bank's management to manage the exposure to fluctuations in net interest income arising from changes in interest rates through a gap analysis of assets and liabilities in individual groups. Further information about interest rate risk management is provided in Section (B) of this Note.

The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have a contractual maturity or a repricing date were grouped into the 'Undefined' category. The table includes a breakout of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
<b>Assets</b>						
Cash and current balances with central banks	32,523	0	0	0	0	<b>32,523</b>
Financial assets at fair value through profit or loss	1,633	0	0	0	17,736	<b>19,369</b>
Positive fair values of hedging financial derivatives	0	0	0	0	13,017	<b>13,017</b>
Available-for-sale financial assets	1,653	6,344	1,660	13,780	240	<b>23,677</b>
Assets held for sale	0	0	0	0	127	<b>127</b>
Amounts due from banks	218,629	3,534	9,357	759	0	<b>232,279</b>
Loans and advances to customers	221,442	69,015	208,057	36,807	0	<b>535,321</b>
Held-to-maturity investments	0	3,875	27,541	25,520	0	<b>56,936</b>
Current tax assets	0	0	0	0	0	<b>0</b>
Deferred tax assets	0	0	0	0	18	<b>18</b>
Prepayments, accrued income and other assets	0	0	0	0	3,923	<b>3,923</b>
Investments in subsidiaries and associates	0	0	0	0	19,928	<b>19,928</b>
Intangible assets	0	0	0	0	4,189	<b>4,189</b>
Tangible assets	0	0	0	0	4,765	<b>4,765</b>
<b>Total assets</b>	<b>475,880</b>	<b>82,768</b>	<b>246,615</b>	<b>76,866</b>	<b>63,943</b>	<b>946,072</b>
<b>Liabilities</b>						
Amounts due to central banks	1	0	0	0	0	<b>1</b>
Financial liabilities through profit or loss	1,673	0	0	0	18,161	<b>19,834</b>
Negative fair values of hedging financial derivatives	0	0	0	0	10,189	<b>10,189</b>
Amounts due to banks	60,457	7,227	1,916	0	0	<b>69,600</b>
Amounts due to customers	21,529	14,370	240	0	665,914*	<b>702,053</b>
Revaluation differences on portfolios hedge items	0	0	0	0	(1,206)	<b>(1,206)</b>
Securities issued	3,948	2,873	17,500	11,017	0	<b>35,338</b>
Current tax liabilities	0	0	0	0	254	<b>254</b>
Deferred tax liabilities	0	0	0	0	265	<b>265</b>
Accruals and other liabilities	0	0	0	0	16,682	<b>16,682</b>
Provisions	0	0	0	0	1,898	<b>1,898</b>
Subordinated debt	2,560	0	0	0	0	<b>2,560</b>
<b>Total liabilities</b>	<b>90,168</b>	<b>24,470</b>	<b>19,656</b>	<b>11,017</b>	<b>712,157</b>	<b>857,468</b>
<b>Statement of Financial Position interest rate gap as of 31 December 2017</b>	<b>385,712</b>	<b>58,298</b>	<b>226,959</b>	<b>65,849</b>	<b>(648,214)</b>	<b>88,604</b>
Nominal value of derivatives**	704,809	335,407	470,310	380,734	0	<b>1,891,260</b>
<b>Total off-balance sheet assets</b>	<b>704,809</b>	<b>335,407</b>	<b>470,310</b>	<b>380,734</b>	<b>0</b>	<b>1,891,260</b>
Nominal value of derivatives**	842,017	337,510	489,961	219,655	0	<b>1,889,143</b>
Undrawn portion of loans***	(7,684)	(9,064)	11,233	5,515	0	<b>0</b>
Undrawn portion of revolving loans***	(680)	680	0	0	0	<b>0</b>
<b>Total off-balance sheet liabilities</b>	<b>833,653</b>	<b>329,126</b>	<b>501,194</b>	<b>225,170</b>	<b>0</b>	<b>1,889,143</b>
<b>Net off-balance sheet interest rate gap as of 31 December 2017</b>	<b>(128,844)</b>	<b>6,281</b>	<b>(30,884)</b>	<b>155,564</b>	<b>0</b>	<b>2,117</b>
<b>Cumulative interest rate gap as of 31 December 2017</b>	<b>256,868</b>	<b>321,447</b>	<b>517,522</b>	<b>738,935</b>	<b>90,721</b>	<b>x</b>

\* This item principally includes client deposits where the Bank has the option to reset interest rates and hence they are not sensitive to interest rate changes.

\*\* Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.

\*\*\* Undrawn loans and revolving loans are reported on a net basis, that is, the Bank reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan inasmuch as the interest rate has not been determined for such commitments.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
<b>Assets</b>						
Cash and current balances with central banks	103,993	0	0	0	0	<b>103,993</b>
Financial assets at fair value through profit or loss	11,445	0	0	0	19,037	<b>30,482</b>
Positive fair values of hedging financial derivatives	0	0	0	0	21,614	<b>21,614</b>
Available-for-sale financial assets	304	9,472	3,626	18,009	0	<b>31,411</b>
Assets held for sale	0	0	0	0	587	<b>587</b>
Amounts due from banks	49,426	4,751	2,069	1,737	0	<b>57,983</b>
Loans and advances to customers	232,583	67,673	191,376	35,511	0	<b>527,143</b>
Held-to-maturity investments	0	3,564	28,367	30,494	0	<b>62,425</b>
Current tax assets	0	0	0	0	0	<b>0</b>
Deferred tax assets	0	0	0	0	31	<b>31</b>
Prepayments, accrued income and other assets	0	0	0	0	3,012	<b>3,012</b>
Investments in subsidiaries and associates	0	0	0	0	21,292	<b>21,292</b>
Intangible assets	0	0	0	0	3,428	<b>3,428</b>
Tangible assets	0	0	0	0	4,664	<b>4,664</b>
<b>Total assets</b>	<b>397,751</b>	<b>85,460</b>	<b>225,438</b>	<b>85,751</b>	<b>73,665</b>	<b>868,065</b>
<b>Liabilities</b>						
Amounts due to central banks	1	0	0	0	0	<b>1</b>
Financial liabilities through profit or loss	160	0	0	0	18,780	<b>18,940</b>
Negative fair values of hedging financial derivatives	0	0	0	0	9,373	<b>9,373</b>
Amounts due to banks	35,104	8,178	0	0	0	<b>43,282</b>
Amounts due to customers	24,000	13,646	288	0	600,476*	<b>638,410</b>
Revaluation differences on portfolios hedge items	0	0	0	0	0	<b>0</b>
Securities issued	1,968	9,367	17,640	16,780	0	<b>45,755</b>
Current tax liabilities	0	0	0	0	357	<b>357</b>
Deferred tax liabilities	0	0	0	0	3,065	<b>3,065</b>
Accruals and other liabilities	0	0	0	0	14,149	<b>14,149</b>
Provisions	0	0	0	0	1,701	<b>1,701</b>
Subordinated debt	0	0	0	0	0	<b>0</b>
<b>Total liabilities</b>	<b>61,233</b>	<b>31,191</b>	<b>17,928</b>	<b>16,780</b>	<b>647,901</b>	<b>775,033</b>
<b>Statement of Financial Position interest rate gap as of 31 December 2016</b>						
	<b>336,518</b>	<b>54,269</b>	<b>207,510</b>	<b>68,971</b>	<b>(574,236)</b>	<b>93,032</b>
Nominal value of derivatives**	575,690	271,474	380,241	325,299	0	<b>1,552,704</b>
<b>Total off-balance sheet assets</b>	<b>575,690</b>	<b>271,474</b>	<b>380,241</b>	<b>325,299</b>	<b>0</b>	<b>1,552,704</b>
Nominal value of derivatives**	692,176	264,161	407,575	189,806	0	<b>1,553,718</b>
Undrawn portion of loans***	(8,624)	(8,483)	9,291	7,816	0	<b>0</b>
Undrawn portion of revolving loans***	(578)	578	0	0	0	<b>0</b>
<b>Total off-balance sheet liabilities</b>	<b>682,974</b>	<b>256,256</b>	<b>416,866</b>	<b>197,622</b>	<b>0</b>	<b>1,553,718</b>
<b>Net off-balance sheet interest rate gap as of 31 December 2016</b>	<b>(107,284)</b>	<b>15,218</b>	<b>(36,625)</b>	<b>127,677</b>	<b>0</b>	<b>(1,014)</b>
<b>Cumulative interest rate gap as of 31 December 2016</b>	<b>229,234</b>	<b>298,721</b>	<b>469,606</b>	<b>666,254</b>	<b>92,018</b>	<b>x</b>

\* This item principally includes client deposits where the Bank has the option to reset interest rates and hence they are not sensitive to interest rate changes.

\*\* Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.

\*\*\* Undrawn loans and revolving loans are reported on a net basis, that is, the Bank reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan inasmuch as the interest rate has not been determined for such commitments.

Average interest rates as of 31 December 2017 and 2016 were as follow:

	31 Dec 2017			31 Dec 2016		
	CZK	USD	EUR	CZK	USD	EUR
<b>Assets</b>						
Cash and current balances with central banks	0.31%	x	x	0.05%	x	x
Treasury bills	x	x	x	x	x	x
Amounts due from banks	0.54%	1.94%	0.07%	0.08%	1.27%	0.14%
Loans and advances to customers	2.26%	2.99%	1.65%	2.30%	2.80%	1.66%
Interest-earning securities	1.65%	x	1.57%	1.63%	x	1.34%
<b>Total assets</b>	<b>1.34%</b>	<b>1.46%</b>	<b>1.10%</b>	<b>1.33%</b>	<b>1.36%</b>	<b>1.14%</b>
<b>Total interest-earning assets</b>	<b>1.65%</b>	<b>2.28%</b>	<b>1.13%</b>	<b>1.76%</b>	<b>1.85%</b>	<b>1.18%</b>
<b>Liabilities</b>						
Amounts due to central banks and banks	0.08%	0.88%	0.27%	0.07%	0.73%	0.40%
Amounts due to customers	0.01%	0.34%	0.02%	0.02%	0.03%	0.02%
Debt securities	3.07%	1.03%	2.12%	3.06%	0.97%	0.16%
Subordinated debt	x	x	0.93%	x	x	x
<b>Total liabilities</b>	<b>0.15%</b>	<b>0.33%</b>	<b>0.13%</b>	<b>0.16%</b>	<b>0.08%</b>	<b>0.16%</b>
<b>Total interest-bearing liabilities</b>	<b>0.16%</b>	<b>0.35%</b>	<b>0.14%</b>	<b>0.17%</b>	<b>0.09%</b>	<b>0.17%</b>
<b>Off-balance sheet assets</b>						
Nominal value of derivatives (interest rate swaps, options, etc.)	1.03%	2.91%	0.59%	0.95%	2.64%	0.71%
Undrawn portion of loans	1.86%	x	1.22%	1.55%	x	1.75%
Undrawn portion of revolving loans	5.01%	2.50%	0.23%	4.90%	1.29%	0.29%
<b>Total off-balance sheet assets</b>	<b>1.16%</b>	<b>2.89%</b>	<b>0.58%</b>	<b>1.18%</b>	<b>2.62%</b>	<b>0.71%</b>
<b>Off-balance sheet liabilities</b>						
Nominal value of derivatives (interest rate swaps, options, etc.)	0.87%	2.67%	0.48%	0.71%	2.32%	0.63%
Undrawn portion of loans	1.86%	x	1.22%	1.55%	x	1.75%
Undrawn portion of revolving loans	5.01%	2.50%	0.23%	4.90%	1.29%	0.29%
<b>Total off-balance sheet liabilities</b>	<b>1.01%</b>	<b>2.66%</b>	<b>0.48%</b>	<b>0.96%</b>	<b>2.31%</b>	<b>0.63%</b>

Note: The above table sets out the average interest rates for December 2017 and 2016 calculated as a weighted average for each asset and liability category.

The 2W repo rate announced by the CNB increased during 2017 from 0.05% to 0.50%. Czech crown money market rates (PRIBOR) increased by 0.44-0.53% (1-12M). Interest rate swaps increased by 0.99-1.17% (2-10Y).

Euro money market rates decreased during 2017 by 0.00-0.10% (1-12M), and interest rate swaps increased from 0.01% (2Y) to 0.26% (6-7Y).

Dollar money market rates increased during 2017 by 0.42-0.80% (1-12M), and interest rate swaps increased from 0.61% (2Y) to 0.04% (10Y).

Following is a breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

(CZKmn)	31 Dec 2017				31 Dec 2016			
	Fixed interest rate	Floating interest rate	No interest	Total	Fixed interest rate	Floating interest rate	No interest	Total
<b>Assets</b>								
Cash and current balances with central banks	5,000	16,412	11,111	<b>32,523</b>	0	93,292	10,701	<b>103,993</b>
Financial assets at fair value through profit or loss	964	669	17,736	<b>19,369</b>	7,466	2,140	20,876	<b>30,482</b>
Positive fair values of hedging financial derivatives	0	0	13,017	<b>13,017</b>	0	0	21,614	<b>21,614</b>
Available-for-sale financial assets	16,794	6,643	240	<b>23,677</b>	17,568	13,661	182	<b>31,411</b>
Amounts due from banks	9,899	222,305	75	<b>232,279</b>	8,299	49,550	134	<b>57,983</b>
Loans and advances to customers	333,738	196,954	4,629	<b>535,321</b>	316,162	206,221	4,760	<b>527,143</b>
Held-to-maturity investments	56,936	0	0	<b>56,936</b>	62,425	0	0	<b>62,425</b>
<b>Liabilities</b>								
Amounts due to central banks	1	0	0	<b>1</b>	1	0	0	<b>1</b>
Financial liabilities at fair value through profit or loss	0	0	19,834	<b>19,834</b>	0	0	18,940	<b>18,940</b>
Negative fair values of hedging financial derivatives	0	0	10,189	<b>10,189</b>	0	0	9,373	<b>9,373</b>
Amounts due to banks	25,033	44,318	249	<b>69,600</b>	16,055	26,292	935	<b>43,282</b>
Amounts due to customers	126	694,768*	7,159	<b>702,053</b>	105	631,768*	6,537	<b>638,410</b>
Revaluation differences on portfolios hedge items	0	0	(1,206)	<b>(1,206)</b>	0	0	0	<b>0</b>
Securities issued	14,074	21,264	0	<b>35,338</b>	15,922	29,833	0	<b>45,755</b>
Subordinated debt	0	2,560	0	<b>2,560</b>	0	0	0	<b>0</b>

Note: Individual assets and liabilities are split into the categories of 'Fixed interest rate', 'Floating interest rate', and 'No interest' according to contractual parameters defining the interest rate structure. For this purpose, a fixed interest rate is defined as a rate with a repricing period exceeding one year. Products having no parameters defining their interest rate structure are included in the 'No interest' category.

\* This item principally includes client deposits where the Bank has the option to reset interest rates and hence they are not sensitive to interest rate changes.

## (E) Liquidity risk

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments.

Liquidity risk management is based upon the liquidity risk management system approved by the Bank's Board of Directors. Liquidity is monitored on a bank-wide level, with the Market Book also having a standalone limit. The Bank has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Bank has defined a set of indicators for which binding limits are established.

The Bank is exposed to daily calls on its available cash resources from derivatives, overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Bank's experiences show that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities (mainly reverse repo transactions with CNB) that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk of the Bank is managed as stipulated above (and in particular not on the basis of undiscounted cash flows).



The table below provides a breakdown of assets, liabilities and equity into relevant maturity groupings based on the remaining period from the financial statements date to the contractual maturity date. The table includes a breakout of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(CZKmn)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
<b>Assets</b>							
Cash and current balances with central banks	14,607	0	0	0	0	17,916	32,523
Financial assets at fair value through profit or loss	0	17	391	487	737	17,737	19,369
Positive fair values of hedging financial derivatives	0	0	0	0	0	13,017	13,017
Available-for-sale financial assets	0	15	2,688	1,754	18,080	1,140	23,677
Assets held for sale	0	0	127	0	0	0	127
Amounts due from banks	109,298	105,954	1,537	9,866	127	5,497	232,279
Loans and advances to customers	5,886	57,026	52,333	163,151	240,683	16,242	535,321
Held-to-maturity investments	0	68	4,745	27,043	25,080	0	56,936
Current tax assets	0	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	18	18
Prepayments, accrued income and other assets	804	0	0	0	0	3,119	3,923
Investments in subsidiaries and associates	0	0	0	0	0	19,928	19,928
Intangible assets	0	0	0	0	0	4,189	4,189
Tangible assets	0	0	0	0	0	4,765	4,765
<b>Total assets</b>	<b>130,595</b>	<b>163,080</b>	<b>61,821</b>	<b>202,301</b>	<b>284,707</b>	<b>103,568</b>	<b>946,072</b>
<b>Liabilities</b>							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss	1,673	0	0	0	0	18,161	19,834
Negative fair values of hedging financial derivatives	0	0	0	0	0	10,189	10,189
Amounts due to banks	33,504	8,419	1,797	19,948	5,932	0	69,600
Amounts due to customers	679,737	9,342	11,544	1,430	0	0	702,053
Revaluation differences on portfolios hedge items	0	0	0	0	0	(1,206)	(1,206)
Securities issued	467	3,199	348	5,854	25,470	0	35,338
Current tax liabilities	0	254	0	0	0	0	254
Deferred tax liabilities	0	0	0	0	0	265	265
Accruals and other liabilities	16,271	15	0	0	0	396	16,682
Provisions	8	91	784	488	1	526	1,898
Subordinated debt	0	0	0	0	2,560	0	2,560
Equity	0	0	0	0	0	88,604	88,604
<b>Total liabilities</b>	<b>731,661</b>	<b>21,320</b>	<b>14,473</b>	<b>27,720</b>	<b>33,963</b>	<b>116,935</b>	<b>946,072</b>
<b>Statement of Financial Position liquidity gap as of 31 Dec 2017</b>	<b>(601,066)</b>	<b>141,760</b>	<b>47,348</b>	<b>174,581</b>	<b>250,744</b>	<b>(13,367)</b>	<b>0</b>
Off-balance sheet assets*	51,890	228,523	195,744	207,732	62,675	0	746,564
Off-balance sheet liabilities*	56,539	250,169	248,505	255,897	65,224	13,385	889,719
<b>Net off-balance sheet liquidity gap as of 31 Dec 2017</b>	<b>(4,649)</b>	<b>(21,646)</b>	<b>(52,761)</b>	<b>(48,165)</b>	<b>(2,549)</b>	<b>(13,385)</b>	<b>(143,155)</b>

\* Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term and option contracts and payables under guarantees, letters of credit and committed facilities.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
<b>Assets</b>							
Cash and current balances with central banks	9,255	0	0	0	0	94,738	103,993
Financial assets at fair value through profit or loss	700	594	1,395	4,623	2,293	20,877	30,482
Positive fair values of hedging financial derivatives	0	0	0	0	0	21,614	21,614
Available-for-sale financial assets	0	20	4,575	3,546	20,696	2,574	31,411
Assets held for sale	0	0	587	0	0	0	587
Amounts due from banks	19,759	22,211	3,150	6,824	59	5,980	57,983
Loans and advances to customers	4,929	59,123	50,606	159,923	238,011	14,551	527,143
Held-to-maturity investments	0	353	4,231	27,843	29,998	0	62,425
Current tax assets	0	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	31	31
Prepayments, accrued income and other assets	120	2	0	0	0	2,890	3,012
Investments in subsidiaries and associates	0	0	0	0	0	21,292	21,292
Intangible assets	0	0	0	0	0	3,428	3,428
Tangible assets	0	0	0	0	0	4,664	4,664
<b>Total assets</b>	<b>34,763</b>	<b>82,303</b>	<b>64,544</b>	<b>202,759</b>	<b>291,057</b>	<b>192,639</b>	<b>868,065</b>
<b>Liabilities</b>							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss	160	0	0	0	0	18,780	18,940
Negative fair values of hedging financial derivatives	0	0	0	0	0	9,373	9,373
Amounts due to banks	12,721	5,890	2,164	12,980	9,527	0	43,282
Amounts due to customers	609,341	13,522	14,054	1,493	0	0	638,410
Revaluation differences on portfolios hedge items	0	0	0	0	0	0	0
Securities issued	279	1,706	952	4,769	37,917	132	45,755
Current tax liabilities	0	357	0	0	0	0	357
Deferred tax liabilities	0	0	0	0	0	3,065	3,065
Accruals and other liabilities	13,735	12	0	0	0	402	14,149
Provisions	11	171	762	269	4	484	1,701
Subordinated debt	0	0	0	0	0	0	0
Equity	0	0	0	0	0	93,032	93,032
<b>Total liabilities</b>	<b>636,248</b>	<b>21,658</b>	<b>17,932</b>	<b>19,511</b>	<b>47,448</b>	<b>125,268</b>	<b>868,065</b>
<b>Statement of Financial Position liquidity gap as of 31 Dec 2016</b>							
Off-balance sheet assets*	(601,485)	60,645	46,612	183,248	243,609	67,371	0
Off-balance sheet liabilities*	53,277	199,484	186,686	216,614	57,647	13,555	727,263
<b>Net off-balance sheet liquidity gap as of 31 Dec 2016</b>	<b>(3,234)</b>	<b>(21,133)</b>	<b>(55,633)</b>	<b>(45,433)</b>	<b>(4,614)</b>	<b>(13,555)</b>	<b>(143,602)</b>

\* Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term and option contracts and payables under guarantees, letters of credit and committed facilities.

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Bank based on the undiscounted cash flows as of 31 December 2017.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
<b>Liabilities</b>							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss (except derivatives)	1,673	0	0	0	0	0	1,673
Amounts due to banks	33,521	8,423	1,814	20,021	6,072	0	69,851
Amounts due to customers	679,829	9,401	11,739	1,439	0	0	702,408
Securities issued	482	3,348	1,101	8,246	26,215	0	39,392
Current tax liabilities	0	254	0	0	0	0	254
Deferred tax liabilities	0	0	0	0	0	265	265
Accruals and other liabilities	16,271	15	0	0	0	396	16,682
Provisions	8	91	784	488	1	526	1,898
Subordinated debt	0	0	0	0	2,560	0	2,560
<b>Total non-derivative financial liabilities</b>	<b>731,785</b>	<b>21,532</b>	<b>15,438</b>	<b>30,194</b>	<b>34,848</b>	<b>1,187</b>	<b>834,984</b>
Other loans commitment granted	2,437	14,278	33,087	28,409	459	13,243	91,913
Guarantee commitments granted	1,882	7,826	19,255	20,147	2,645	142	51,897
<b>Total contingent liabilities</b>	<b>4,319</b>	<b>22,104</b>	<b>52,342</b>	<b>48,556</b>	<b>3,104</b>	<b>13,385</b>	<b>143,810</b>

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Bank based on the undiscounted cash flows as of 31 December 2016.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
<b>Liabilities</b>							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss (except derivatives)	160	0	0	0	0	0	160
Amounts due to banks	12,721	5,890	2,166	13,027	9,862	0	43,666
Amounts due to customers	609,345	13,532	14,107	1,516	0	0	638,500
Securities issued	295	1,857	2,279	7,889	39,020	132	51,472
Current tax liabilities	0	357	0	0	0	0	357
Deferred tax liabilities	0	0	0	0	0	3,065	3,065
Accruals and other liabilities	13,735	12	0	0	0	402	14,149
Provisions	11	171	762	269	4	484	1,701
Subordinated debt	0	0	0	0	0	0	0
<b>Total non-derivative financial liabilities</b>	<b>636,268</b>	<b>21,819</b>	<b>19,314</b>	<b>22,701</b>	<b>48,886</b>	<b>4,083</b>	<b>753,071</b>
Other loans commitment granted	1,641	13,976	35,850	24,770	1,342	13,477	91,056
Guarantee commitments granted	1,135	7,185	19,509	20,120	3,300	78	51,327
<b>Total contingent liabilities</b>	<b>2,776</b>	<b>21,161</b>	<b>55,359</b>	<b>44,890</b>	<b>4,642</b>	<b>13,555</b>	<b>142,383</b>

## (F) Foreign exchange position

The table below breaks out the Bank's main currency exposures. The remaining currencies are shown within 'Other currencies'. The Bank manages its foreign exchange position on a daily basis. For this purpose, the Bank has a set of internal limits.

(CZKm)	CZK	EUR	USD	Other currencies	Total
<b>Assets</b>					
Cash and current balances with central banks	30,441	1,594	199	289	32,523
Financial assets at fair value through profit or loss	15,773	3,241	262	93	19,369
Positive fair values of hedging financial derivatives	11,416	1,545	115	(59)	13,017
Available-for-sale financial assets	16,345	7,186	146	0	23,677
Assets held for sale	127	0	0	0	127
Amounts due from banks	197,812	27,722	6,078	667	232,279
Loans and advances to customers	434,038	97,305	3,074	904	535,321
Held-to-maturity investments	44,549	12,387	0	0	56,936
Current tax assets	0	0	0	0	0
Deferred tax assets	0	18	0	0	18
Prepayments, accrued income and other assets	2,987	760	174	2	3,923
Investments in subsidiaries and associates	17,056	2,872	0	0	19,928
Intangible assets	4,187	2	0	0	4,189
Tangible assets	4,763	2	0	0	4,765
<b>Total assets</b>	<b>779,494</b>	<b>154,634</b>	<b>10,048</b>	<b>1,896</b>	<b>946,072</b>
<b>Liabilities</b>					
Amounts due to central banks	1	0	0	0	1
Financial liabilities at fair value through profit or loss	17,465	2,063	213	93	19,834
Negative fair values of hedging financial derivatives	8,518	1,683	47	(59)	10,189
Amounts due to banks	25,046	44,152	164	238	69,600
Amounts due to customers	626,753	60,769	12,163	2,368	702,053
Revaluation differences on portfolios hedge items	(2,109)	958	(55)	0	(1,206)
Securities issued	35,288	23	27	0	35,338
Current tax liabilities	238	16	0	0	254
Deferred tax liabilities	265	0	0	0	265
Accruals and other liabilities	13,900	2,160	465	157	16,682
Provisions	1,391	438	14	55	1,898
Subordinated debt	0	2,560	0	0	2,560
Equity	88,407	197	0	0	88,604
<b>Total liabilities</b>	<b>815,163</b>	<b>115,019</b>	<b>13,038</b>	<b>2,852</b>	<b>946,072</b>
<b>Net FX position as of 31 December 2017</b>	<b>(35,669)</b>	<b>39,615</b>	<b>(2,990)</b>	<b>(956)</b>	<b>0</b>
Off-balance sheet assets*	1,635,085	667,691	130,226	17,213	2,450,215
Off-balance sheet liabilities*	1,599,658	706,201	126,893	16,312	2,449,064
<b>Net off-balance sheet FX position as of 31 December 2017</b>	<b>35,427</b>	<b>(38,510)</b>	<b>3,333</b>	<b>901</b>	<b>1,151</b>
<b>Total net FX position as of 31 December 2017</b>	<b>(242)</b>	<b>1,105</b>	<b>343</b>	<b>(55)</b>	<b>1,151</b>

\* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot transactions and nominal value of all derivative deals.

(CZKm)	CZK	EUR	USD	Other currencies	Total
<b>Assets</b>					
Cash and current balances with central banks	102,103	1,250	325	315	103,993
Financial assets at fair value through profit or loss	24,657	5,505	314	6	30,482
Positive fair values of hedging financial derivatives	19,030	2,333	251	0	21,614
Available-for-sale financial assets	23,614	7,620	177	0	31,411
Assets held for sale	587	0	0	0	587
Amounts due from banks	24,957	22,585	9,988	453	57,983
Loans and advances to customers	420,020	100,319	5,974	830	527,143
Held-to-maturity investments	48,356	14,069	0	0	62,425
Current tax assets	0	0	0	0	0
Deferred tax assets	0	31	0	0	31
Prepayments, accrued income and other assets	2,532	405	74	1	3,012
Investments in subsidiaries and associates	18,169	3,123	0	0	21,292
Intangible assets	3,425	3	0	0	3,428
Tangible assets	4,662	2	0	0	4,664
<b>Total assets</b>	<b>692,112</b>	<b>157,245</b>	<b>17,103</b>	<b>1,605</b>	<b>868,065</b>
<b>Liabilities</b>					
Amounts due to central banks	1	0	0	0	1
Financial liabilities at fair value through profit or loss	15,715	2,961	258	6	18,940
Negative fair values of hedging financial derivatives	7,072	2,219	82	0	9,373
Amounts due to banks	4,003	38,151	1,072	56	43,282
Amounts due to customers	549,835	73,744	12,228	2,603	638,410
Revaluation differences on portfolios hedge items	0	0	0	0	0
Securities issued	45,482	19	38	216	45,755
Current tax liabilities	353	4	0	0	357
Deferred tax liabilities	3,065	0	0	0	3,065
Accruals and other liabilities	11,594	1,927	492	136	14,149
Provisions	1,271	327	59	44	1,701
Subordinated debt	0	0	0	0	0
Equity	92,704	328	0	0	93,032
<b>Total liabilities</b>	<b>731,095</b>	<b>119,680</b>	<b>14,229</b>	<b>3,061</b>	<b>868,065</b>
<b>Net FX position as of 31 December 2016</b>	<b>(38,983)</b>	<b>37,565</b>	<b>2,874</b>	<b>(1,456)</b>	<b>0</b>
Off-balance sheet assets*	1,306,650	504,567	147,940	16,001	1,975,158
Off-balance sheet liabilities*	1,271,354	539,060	150,152	14,682	1,975,248
<b>Net off-balance sheet FX position as of 31 December 2016</b>	<b>35,296</b>	<b>(34,493)</b>	<b>(2,212)</b>	<b>1,319</b>	<b>(90)</b>
<b>Total net FX position as of 31 December 2016</b>	<b>(3,687)</b>	<b>3,072</b>	<b>662</b>	<b>(137)</b>	<b>(90)</b>

\* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot transactions and nominal value of all derivative deals.

## **(G) Operational risk**

Since 2008, the Bank has used the Advanced Measurement Approach (AMA) for operational risk management. In addition to standard operational risk instruments used within the AMA approach, such as operational losses collection, Risk Control Self-Assessment (RCSA), Key Risk Indicators (KRI) or Scenario Analysis (SA), the Bank developed and deployed also a permanent supervision system consisting of a set of operational everyday controls and a set of formalised periodic controls. These controls are independently and on a continuous basis reviewed within a so-called second level of controls. The Bank is continuously developing all the aforementioned operational risk instruments and supporting continuous development of an operational risk culture throughout all organisational units.

The information collected by the Operational Risks Department is regularly analysed and provided to the Bank's management. Based on this information, the management may decide on further strategic steps within the framework of operational risk management. The evaluation of operational risks is also an integral component of the process for new product development and validation.

## **(H) Legal risk**

The Bank regularly monitors and evaluates legal disputes filed against it. In order to cover all contingent liabilities arising from legal disputes, the Bank establishes a provision equal to the claimed amount in respect of all litigation where it is named as a defendant and where the likelihood of payment has been estimated to exceed 50%. The Bank also manages its legal risk through the assessment of legal risks involved in the contracts to which the Bank is a party.

## **(I) Estimated fair value of assets and liabilities of the Bank**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where quoted market prices are not readily available, the fair value is estimated, as appropriate, using discounted cash flow models or other generally acceptable pricing models. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect these estimates.

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used.

### **(a) Cash and current balances with central banks**

The reported values of cash and current balances with the central bank are generally deemed to approximate their fair value.

### **(b) Amounts due from banks**

The estimated fair value of amounts due from banks that mature in 180 days or less approximates their carrying amounts. The fair value of other amounts due from banks is estimated based upon discounted cash flow analysis using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis. The fair value of a loss loan is equal to the appraised value of the underlying collateral.

### **(c) Loans and advances to customers**

The fair value of variable yield loans that regularly reprice and which have no significant change in credit risk generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analysis based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

### **(d) Held-to-maturity investments**

The fair value of the held-to-maturity portfolio is based upon quoted market prices. Where no market prices are available, the fair value is estimated based on discounted cash flow models using the interest rate currently offered as of the financial statements date.



(e) **Amounts due to central banks, banks and customers**

The fair value of deposits repayable on demand represents the carrying value of amounts repayable on demand as of the financial statements date. The carrying value of term deposits at variable interest rates approximates their fair values as of the financial statements date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates. Amounts due to banks and customers at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total amounts due to banks and customers approximates the carrying values as of the financial statements date.

(f) **Securities issued**

The fair value of debt securities issued by the Bank is based upon quoted market prices. Where no market prices are available, the fair value is estimated using a discounted cash flow analysis.

*The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the Bank's Statement of Financial Position at their fair values:*

	31 Dec 2017		31 Dec 2016	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
Cash and current balances with central banks	32,523	32,523	103,993	103,993
Amounts due from banks	232,279	232,579	57,983	58,412
Loans and advances to customers	535,321	541,792	527,143	541,630
Held-to-maturity investments	56,936	59,097	62,425	66,244
<b>Financial liabilities</b>				
Amounts due to central banks	1	1	1	1
Amounts due to banks	69,600	69,577	43,282	43,283
Amounts due to customers	702,053	701,507	638,410	636,619
Securities issued	35,338	35,573	45,755	46,473
Subordinated debt	2,560	2,560	0	0

*The following table presents the hierarchy of fair values for those financial assets and liabilities not presented on the Bank's Statement of Financial Position at their fair values:*

	31 Dec 2017				31 Dec 2016			
(CZKm)	Fair value	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>								
Cash and current balances with central banks	32,523	10,070	0	22,453	103,993	8,996	0	94,997
Amounts due from banks	232,579	0	0	232,579	58,412	0	0	58,412
Loans and advances to customers	541,792	0	0	541,792	541,630	0	0	541,630
Held-to-maturity investments	59,097	59,097	0	0	66,244	66,244	0	0
<b>Financial liabilities</b>								
Amounts due to central banks	1	0	0	1	1	0	0	1
Amounts due to banks	69,577	0	0	69,577	43,283	0	0	43,283
Amounts due to customers	701,507	0	0	701,507	636,619	0	0	636,619
Securities issued	35,573	0	0	35,573	46,473	0	0	46,473
Subordinated debt	2,560	0	0	2,560	0	0	0	0

## (J) Allocation of fair values of financial instruments at fair value to the hierarchy of fair values

Financial assets and financial liabilities at fair value by fair value hierarchy (refer to Note 3.5.4):

(CZKm)	31 Dec 2017	Level 1	Level 2	Level 3	31 Dec 2016	Level 1	Level 2	Level 3
<b>Financial assets</b>								
Financial assets at fair value through profit or loss								
– Emission allowances	996	996	0	0	1,839	1,839	0	0
– Debt securities	1,633	1,300	333	0	9,606	8,501	1,105	0
– Derivatives	16,740	217	16,523	0	19,037	401	18,636	0
<b>Financial assets at fair value through profit or loss</b>	<b>19,369</b>	<b>2,513</b>	<b>16,856</b>	<b>0</b>	<b>30,482</b>	<b>10,741</b>	<b>19,741</b>	<b>0</b>
<b>Positive fair value of hedging financial derivatives</b>	<b>13,017</b>	<b>0</b>	<b>13,017</b>	<b>0</b>	<b>21,614</b>	<b>0</b>	<b>21,614</b>	<b>0</b>
Available-for-sale financial assets								
– Shares and participation certificates	240	0	0	240	182	0	0	182
– Debt securities	23,437	20,879	2,558	0	31,229	20,148	11,081	0
<b>Available-for-sale financial assets</b>	<b>23,677</b>	<b>20,879</b>	<b>2,558</b>	<b>240</b>	<b>31,411</b>	<b>20,148</b>	<b>11,081</b>	<b>182</b>
<b>Financial assets at fair value</b>	<b>56,063</b>	<b>23,392</b>	<b>32,431</b>	<b>240</b>	<b>83,507</b>	<b>30,889</b>	<b>52,436</b>	<b>182</b>
<b>Financial liabilities</b>								
Financial liabilities at fair value through profit or loss								
– Sold securities	1,673	1,673	0	0	160	160	0	0
– Derivatives	18,161	406	17,755	0	18,780	261	18,519	0
<b>Financial liabilities at fair value through profit or loss</b>	<b>19,834</b>	<b>2,079</b>	<b>17,755</b>	<b>0</b>	<b>18,940</b>	<b>421</b>	<b>18,519</b>	<b>0</b>
<b>Negative fair value of hedging financial derivatives</b>	<b>10,189</b>	<b>0</b>	<b>10,189</b>	<b>0</b>	<b>9,373</b>	<b>0</b>	<b>9,373</b>	<b>0</b>
<b>Revaluation differences on portfolios hedge items</b>	<b>(1,206)</b>	<b>0</b>	<b>(1,206)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Financial liabilities at fair value</b>	<b>28,817</b>	<b>2,079</b>	<b>26,738</b>	<b>0</b>	<b>28,313</b>	<b>421</b>	<b>27,892</b>	<b>0</b>

Financial assets at fair value – Level 3:

	2017		2016	
(CZKm)	Available-for-sale financial assets	Total	Available-for-sale financial assets	Total
<b>Balance as of 1 January</b>	<b>182</b>	<b>182</b>	<b>675</b>	<b>675</b>
Comprehensive income/(loss)				
– In the Statement of Income	0	0	0	0
– In Other Comprehensive Income	90	90	303	303
Purchases	0	0	164	164
Sales	0	0	(960)	(960)
Settlement	0	0	0	0
Transfer from Level 1	0	0	0	0
Foreign exchange rate difference	(32)	(32)	0	0
<b>Balance as of 31 December</b>	<b>240</b>	<b>240</b>	<b>182</b>	<b>182</b>

### Shares and participation certificates

When using an alternative method of valuation based on the price/book value ratio, the fair value is not significantly different from the fair value determined on the basis of the present value of future cash flows which was used for the original valuation.

## 43 Offsetting financial assets and financial liabilities

The table below provides information about rights of offset and related arrangements for financial instruments as of 31 December 2017:

(CZKm)	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
	Gross amount of financial assets/liabilities*	Gross amount of financial assets/liabilities set off by financial liabilities/assets	Net amount of financial assets/liabilities	Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	31,001	1,244	29,757	20,683	5,088	3,986
Negative fair value of derivatives	29,594	1,244	28,350	20,683	7,034	633

\* This item includes also counterparties with only positive or negative fair value of derivatives.

The table below provides information about rights of offset and related arrangements for financial instruments as of 31 December 2016:

(CZKm)	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
	Gross amount of financial assets/liabilities*	Gross amount of financial assets/liabilities set off by financial liabilities/assets	Net amount of financial assets/liabilities	Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	40,651	0	40,651	22,776	9,817	8,058
Negative fair value of derivatives	28,153	0	28,153	22,776	4,234	1,143

\* This item includes also counterparties with only positive or negative fair value of derivatives.

## 44 Assets in custody and assets under management

The table below provides information about assets in custody and assets under management:

(CZKm)	31 Dec 2017		31 Dec 2016	
	Cash	Securities	Cash	Securities
Assets in custody	4,520	566,090	3,305	573,252
Assets under management	0	2,987	0	2,137

Assets in custody include securities in the amount of CZK 40,146 million (2016: CZK 44,821 million) of Group subsidiaries.

## 45 Post balance sheet events

### Merger by acquisition of ESSOX s.r.o. and PSA FINANCE ČESKÁ REPUBLIKA, s.r.o.

As of the effective date 1 January 2018, ESSOX s.r.o. and PSA FINANCE CZECH REPUBLIC, s.r.o. were merged into ESSOX s.r.o. ESSOX s.r.o. is a subsidiary of the Bank and PSA FINANCE CZECH REPUBLIC, s.r.o. had been a subsidiary of ESSOX s.r.o.

### Sale of share in Cataps, s.r.o.

In February 2018, the Bank exercised the right to sell 19% share in Cataps, s.r.o. to Worldline SA/NV. As of the end of 2017, the share has been classified as 'Assets held for sale'. The result of the transaction will be recognised and presented in the 'Income from share of associated undertakings'.

Upon conclusion of the transaction, the Bank holds a remaining interest of 1% in Cataps, s.r.o. The Bank and Worldline will continue to work closely together within the KB SmartPay alliance.

### Adoption of IFRS by Modrá pyramida stavební spořitelna, a.s.

Starting from the accounting period beginning on 1 January 2018, Modrá pyramida stavební spořitelna, a.s. changed its accounting and reporting policies from Czech GAAP (Act No. 563/1991 Coll., on Accounting; Decree of the Ministry of Finance of the Czech Republic No. 501/2002 Coll., implementing certain provisions of Act No. 563/1991 for banks and financial institutions; and relevant accounting standards prepared and promulgated by the Ministry of Finance of the Czech Republic) to International Financial Reporting Standards as adopted by the European Union.

# | Securities issued by Komerční banka

## Shares

Komerční banka's registered capital of CZK 19,004,926,000 is divided into 190,049,260 registered common shares.

	2017 <sup>1</sup>	2016 <sup>1</sup>	2015	2014	2013
Number of shares issued <sup>2</sup>	190,049,260	190,049,260	38,009,852	38,009,852	38,009,852
Number of outstanding shares	188,855,900	188,855,900	37,771,180	37,771,180	37,771,180
Market capitalisation (CZK billion) <sup>3</sup>	172.8	167.1	187.0	179.0	167.0
Earnings per share (CZK) <sup>4</sup>	79.1	72.5	337.8	343.0	331.7
Dividend per share for the year (CZK) <sup>5</sup>	47.0 <sup>6</sup>	40.0	310.0	310.0	230.0
Dividend payout ratio (%) <sup>7</sup>	59.5	55.5	92.4	91.0	69.8
Book value per share (CZK) <sup>8</sup>	511.2	537.8	2,711.4	2,816.0	2,479.6
Share price (CZK)					
closing price at year-end	915	885	4,950	4,740	4,421
maximum	1,010	1,091	5,667	5,179	4,810
minimum	881	818	4,590	4,230	3,400

- 1) Values from 2016 reflect the effect of a 1-to-5 split of KB shares implemented in April 2016.
- 2) Nominal value of each share is CZK 100. Before the split of KB shares, the nominal value was CZK 500.
- 3) Closing share price at year-end multiplied by number of outstanding shares
- 4) Earnings attributable to shareholders per average number of shares outstanding (IFRS consolidated)
- 5) Dividend per share before tax. The statutory tax rate applicable in the Czech Republic is 15% or, in certain cases 35%. Dividend is paid in the following year.
- 6) Proposal for the Annual General Meeting on 25 April 2018
- 7) Total dividend paid / Consolidated net profit attributable to shareholders (IFRS consolidated)
- 8) Shareholders' equity excluding minority equity (IFRS consolidated) divided by average number of shares outstanding

## Rights vested in the shares

Rights are attached to the common shares in accordance with Act No. 90/2012 Coll., on Business Corporations, and with the Bank's Articles of Association as approved by the General Meeting. No special rights are attached to the shares. Shareholders' voting rights are governed by the nominal value of their shares. Each CZK 100 of nominal share value is equivalent to one vote.

A shareholder shall be entitled to a proportion of the Bank's profit approved for distribution to the Shareholders by the General Meeting (a dividend) taking into account the Bank's financial results and terms and conditions specified by the generally binding legal regulations and the payment of which was decided upon by the Board of Directors based on the fulfilment of the terms and conditions specified by the generally binding legal regulations.

In accordance with the Articles of Association, the right to a share in profit shall accrue to any shareholder registered as owning shares in the statutory records of the securities' issuer 7 calendar days prior to the date of the General Meeting which approved the share of the profit to be distributed among shareholders. The share in profit shall become payable upon the lapse of 30 days following the date of the General Meeting at which the resolution on the dividend payment was adopted.

The right to claim payment of the dividend shall lapse 3 years from the day when the shareholder learnt of the payment date for payment of the share in profit or when he or she could or should have learnt this, but in no case later than within 10 years of the payment date. Pursuant to a resolution of the Annual General Meeting held in 2009, the Board of Directors will not plead the statute of limitations in order to bar by lapse of time the payment of dividends for the duration of 10 years from the date of dividend payment. After the lapse of 10 years from the date of dividend payment, the Board of Directors is obliged to plead the statute of limitations and to transfer the unpaid dividends to the retained earnings account.

Upon the Bank's liquidation and dissolution, the means of liquidation are governed by the relevant generally binding legal regulations. Distribution of the remaining balance on liquidation among shareholders is approved by the General Meeting in proportion to the nominal values of the shares held by the Bank's shareholders.

### Stock exchange listing

As of 31 December 2017, Komerční banka's shares were listed under ISIN CZ0008019106 on the Prime Market of the Prague Stock Exchange (PSE) and were traded at RM-SYSTEM Czech Stock Exchange. The average daily trading volume of KB shares on the PSE of CZK 113.9 million (EUR 4.3 million) was the third highest<sup>1</sup> among shares traded on the exchange.

### Stock market performance

From a global perspective, equity markets delivered in 2017 solid growth and an unusually smooth rise due mainly to the easy monetary policies of the major central banks and strong economic growth. The MSCI ACWI index of 47 developed and emerging markets increased by 21.6% in USD terms (+1.0% in CZK terms due to strengthening of the crown). Similar factors of the ECB's relaxed monetary policy and recovering European economies also led to a gain in the MSCI EU index of 17 European (including the Czech Republic's) equity markets by 22.7%. Even the European index did not fluctuate much during the year. A significant strengthening of populist political parties, which had been perceived as the main risk to Europe's development, did not materialise in the elections in the Netherlands, France and Germany. European bank shares did not fully participate in this growth, as low interest rates limited bank revenues and additional regulatory measures implemented or in preparation had negative impacts on profitability. The STOXX Europe 600 Banks index climbed by 8.1% in EUR terms (in CZK terms by 2.1%).

### KB share price development

The KB share price closed out trading for 2017 at CZK 915, which was 3.4% above the closing price of a year earlier. As of 31 December 2017, Komerční banka's market capitalisation stood at CZK 172.8 billion (EUR 6.8 billion), ranking it third among titles listed on the PSE.

KB's share price reached its lowest point for the year 2017 already on 17 January. The financial markets reacted positively to KB's results for 2016 announced in February, and the share price subsequently increased. The May response to KB's results announced for the first quarter was also favourable, but in the second half of May and in June the share price saw a correction as markets began to have doubts regarding the looming start of the CNB's normalisation of monetary policy. Some international factors, such as the result of elections in the United Kingdom and performance of some major global banks, temporarily cooled investors' appetites for risk. Positive expectations again prevailed from July, however, underpinned by the first raising of the CNB's monetary policy rates since 2008. The share price reached its highest point for the year of CZK 1,010 on 17 August 2017. The share price declined slightly in the fourth quarter, influenced by relatively slow growth in corporate lending on the Czech market, despite the rapid pace of the economy, and stagnation of interest rates on loans in retail banking, which limited prospects for stronger growth in interest revenues.

### Total return for shareholders

Komerční banka's dividend policy aims to ensure appropriate remuneration of shareholders for their investment while also maintaining stable and safe capital adequacy with a view to potential growth opportunities and currently applicable as well as anticipated regulatory requirements.

The gross dividend of CZK 40 per share paid out in 2017 represented 55.5% of KB Group's attributable net profit for 2016. The corresponding gross dividend yield based on 2016's closing share price was 4.5%.

The total return from holding KB shares in 2017 was 7.1% assuming reinvestment of the net dividend on the payment day.

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<sup>1</sup> Source: Prague Stock Exchange

## Dialogue with shareholders and the capital market

Apart from the 60.35% of KB's share capital held by Société Générale, an international financial services group headquartered in Paris, France, the Bank's free float is held by a diverse base of shareholders, ranging from large international asset managers to private individuals. From the total of more than 47,000 shareholders as of 31 December 2017, individuals resident in the Czech Republic numbered almost 42,000.

The vast majority of freely traded shares are held by institutional investors located in such main global financial centres as New York, Boston and London.

KB works to build long-term relationships with its shareholders through regular and open communication with all capital market participants. During 2017, Komerční banka management participated in 110 investor meetings involving around 160 institutions in Prague, London, New York, Boston, Chicago and Warsaw.

More than 20 financial firms regularly publish their investment research reports on Komerční banka.

## Acquisition of treasury shares in 2017

Komerční banka held 1,193,360 of its own shares as of 31 December 2017. These securities had been purchased on a European regulated market during 2006 and 2011 in accordance with decisions by the Bank's general meetings of 28 April 2005, 26 April 2006 and 21 April 2011 allowing KB to acquire its own shares into treasury.

During 2017, Komerční banka did not acquire its own shares into the banking book, nor did it dispose of its own shares. In 2017, Komerční banka intermediated buy and sell transactions in KB shares for its clients through its own account in the amount of 89,775 shares.

Based upon the consent of the General Meetings convened on 22 April 2016 and 25 April 2017, Komerční banka was authorised to acquire its ordinary shares as treasury stock under the following conditions during 2017:

- The maximum amount of shares that can be held by the Bank at any specific time shall be 19,004,926 ordinary shares representing a total nominal value of CZK 1,900,492,600.
- The share purchase value must be at least CZK 1 per share and at most CZK 1,400 per share.
- The Bank may acquire shares for five years (i.e., the Bank is authorised to acquire its own ordinary shares for 5 years from the General Meeting on 25 April 2017).
- Shares may not be acquired by the Bank should such acquisition breach the conditions stipulated in § 301 (b) and (c) and § 302 of Act No. 90/2012 Coll., the Corporations and Co-operatives Act or, as the case may be, any other applicable legal rules of the Czech Republic or the European Union.

## Bonds

### List of bonds issued by Komerční banka (as of 31 December 2017)

No.	Bond	ISIN	Issue date	Maturity date	Volume in CZK	Number of pieces	Interest rate	Payout of interest
1.	HZL 2007/2019	CZ0002001142 <sup>2</sup>	16 August 2007	16 August 2019	2,000,000,000	30	5.00% p.a.	yearly
2.	HZL 2007/2037	CZ0002001324 <sup>2</sup>	16 November 2007	16 November 2037	1,200,000,000	12	Note A	stated
3.	HZL 2007/2037	CZ0002001332 <sup>2</sup>	16 November 2007	16 November 2037	1,200,000,000	12	Note A	stated
4.	HZL 2007/2037	CZ0002001340 <sup>2</sup>	16 November 2007	16 November 2037	1,200,000,000	12	Note B	stated
5.	HZL 2007/2037	CZ0002001357 <sup>2</sup>	16 November 2007	16 November 2037	500,000,000	5	Note B	stated
6.	HZL 2007/2037	CZ0002001365 <sup>2</sup>	16 November 2007	16 November 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
7.	HZL 2007/2037	CZ0002001373 <sup>2</sup>	16 November 2007	16 November 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
8.	HZL 2007/2037	CZ0002001381 <sup>2</sup>	16 November 2007	16 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
9.	HZL 2007/2037	CZ0002001399 <sup>2</sup>	16 November 2007	16 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
10.	HZL 2007/2037	CZ0002001431 <sup>2</sup>	30 November 2007	30 November 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
11.	HZL 2007/2037	CZ0002001449 <sup>2</sup>	30 November 2007	30 November 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
12.	HZL 2007/2037	CZ0002001456 <sup>2</sup>	30 November 2007	30 November 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
13.	HZL 2007/2037	CZ0002001464 <sup>2</sup>	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
14.	HZL 2007/2037	CZ0002001472 <sup>2</sup>	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
15.	HZL 2007/2037	CZ0002001480 <sup>2</sup>	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated



No.	Bond	ISIN	Issue date	Maturity date	Volume in CZK	Number of pieces	Interest rate	Payout of interest
16.	HZL 2007/2037	CZ0002001498 <sup>2</sup>	7 December 2007	7 December 2037	500,000,000	5	RS minus 0.20% p.a.	stated
17.	HZL 2007/2037	CZ0002001506 <sup>2</sup>	7 December 2007	7 December 2037	700,000,000	7	RS minus 0.20% p.a.	stated
18.	HZL 2007/2037	CZ0002001514 <sup>2</sup>	7 December 2007	7 December 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
19.	HZL 2007/2037	CZ0002001522 <sup>2</sup>	7 December 2007	7 December 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
20.	HZL 2007/2037	CZ0002001530 <sup>2</sup>	7 December 2007	7 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
21.	HZL 2007/2037	CZ0002001548 <sup>2</sup>	7 December 2007	7 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
22.	HZL 2007/2037	CZ0002001555 <sup>2</sup>	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
23.	HZL 2007/2037	CZ0002001563 <sup>2</sup>	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
24.	HZL 2007/2037	CZ0002001571 <sup>2</sup>	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
25.	HZL 2007/2037	CZ0002001589 <sup>2</sup>	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
26.	HZL 2007/2037	CZ0002001753 <sup>1</sup>	21 December 2007	21 December 2037	10,330,000,000	1,033	RS plus 1.5% p.a.	yearly
27.	HZL 2007/2037	CZ0002001746 <sup>1</sup>	28 December 2007	28 December 2037	1,240,000,000	124	RS plus 1.5% p.a.	yearly
28.	HZL 2012/2022	CZ0002002801 <sup>1</sup>	21 December 2012	21 December 2022	3,000,000,000	300,000	2.55% p.a.	yearly
29.	2012/2018	CZ0003703605 <sup>1</sup>	21 December 2012	21 December 2018	5,000,000,000	5,000,000,000	Note C	yearly
30.	2012/2019	CZ0003703613 <sup>1</sup>	21 December 2012	21 December 2019	5,000,000,000	5,000,000,000	Note D	yearly
31.	HZL 2013/2018	CZ0002003064 <sup>1</sup>	14 March 2013	14 March 2018	1,747,000,000	174,700	6M PRIBOR plus 0.50% p.a.	semi-annually
32.	HZL 2014/2022	CZ0002003379 <sup>1</sup>	30 January 2014	30 April 2022	800,000,000	80,000	3.00% p.a.	yearly
33.	HZL 2014/2024	CZ0002003361 <sup>1</sup>	30 January 2014	30 January 2024	900,000,000	90,000	3.00% p.a.	yearly
34.	HZL 2014/2025	CZ0002003353 <sup>1</sup>	31 January 2014	31 January 2025	1,117,000,000	111,700	3.50% p.a.	yearly
35.	HZL 2014/2026	CZ0002003346 <sup>1</sup>	31 January 2014	31 January 2026	800,000,000	80,000	3.50% p.a.	yearly
36.	HZL 2014/2026	CZ0002003742 <sup>2</sup>	18 November 2014	18 November 2026	750,000,000	75,000	2.00% p.a.	yearly
37.	HZL 2014/2028	CZ0002003767 <sup>2</sup>	20 November 2014	20 November 2028	750,000,000	75,000	2.20% p.a.	yearly
38.	HZL 2014/2027	CZ0002003759 <sup>2</sup>	24 November 2014	24 November 2027	750,000,000	75,000	2.10% p.a.	yearly
39.	HZL 2014/2029	CZ0002003775 <sup>2</sup>	27 November 2014	27 November 2029	750,000,000	75,000	2.30% p.a.	yearly

Notes: Certain bonds are held by Komerční banka or other companies within the KB Group.

HZL = mortgage bond, RS = reference rate

1) dematerialised bonds

2) bonds in paper form

Note A: 5.06% p.a. for the first twelve annual periods, afterwards the relevant RS minus 0.20% p.a.

Note B: 5.02% p.a. for the first eleven annual periods, afterwards the relevant RS minus 0.20% p.a.

Note C: 1.50% p.a. for the first year period  
2.50% p.a. for the second year period  
4.00% p.a. for the third year period  
4.50% p.a. for the fourth year period  
5.00% p.a. for the fifth year period  
5.50% p.a. for the sixth year period

Note D: 1.50% p.a. for the first year period  
2.00% p.a. for the second year period  
2.50% p.a. for the third year period  
5.00% p.a. for the fourth year period  
5.50% p.a. for the fifth year period  
6.00% p.a. for the sixth year period  
6.50% p.a. for the seventh year period

All bonds (with the exception of HZL ISIN CZ0002003742, HZL ISIN CZ0002003767, HZL ISIN CZ0002003759 and HZL ISIN CZ0002003775 that are order bonds) are made out to the bearer. All bonds are denominated in CZK.

All bonds were issued under the second KB Debt Issuance Programme approved by the Czech National Bank on 4 June 2007. This 30-Year Debt Issuance Programme enables the Bank to issue bonds in a maximum amount of CZK 150 billion outstanding.

Heretofore unredeemed bonds were issued in the relevant years in accordance with the Bonds Act, the Securities Act and the Act on Capital Market Undertakings, as amended. The bonds' prospectuses, the base prospectuses of the bond programmes or issuance terms and conditions and supplements to the bond programmes were approved, if required by law, by the Czech National Bank.

#### **Public tradability and transferability**

HZL ISIN CZ0002002801 and CZ0002003064 were admitted for trading on the Regulated Market of the Prague Stock Exchange. Transferability of the bonds is not limited.

#### **Rights vested in the bonds**

Rights and obligations pertaining to the bonds are governed and interpreted in accordance with the legal regulations of the Czech Republic. They are explicitly expressed in the issuance terms and conditions for each issue. Bonds bear interest from the date of issue, and coupon payments are made semi-annually, yearly or at stated intervals. The bonds' returns are paid by the issuer – Komerční banka.

The bonds will be redeemed by Komerční banka in the whole amount of the nominal value (with the exception of HZL ISIN CZ0002001142) on the maturity date. HZL ISIN CZ0002001142 is an amortising bond.

## | Information on remuneration to auditors

*Remuneration to the auditors of KB and KB Group for services performed by the companies Deloitte Audit s.r.o. (in the Czech Republic), Deloitte Audit s.r.o. (in the Slovak Republic), Ernst & Young, s.r.o. (in the Czech Republic) and Deloitte Reviseurs d'Entreprises SC s.f.d. SCRL (in the Kingdom of Belgium) during 2017:*

Type of service – CZK thousand, excl. VAT	Deloitte		EY		Total	
	KB	KB Group	KB	KB Group	KB	KB Group
Audit services	21,224	26,951	0	4,137	21,224	31,088
Tax advisory	0	0	0	0	0	0
Non-audit services	211	211	1,261	1,396	1,472	1,607
<b>Total</b>	<b>21,435</b>	<b>27,162</b>	<b>1,261</b>	<b>5,533</b>	<b>22,696</b>	<b>32,695</b>

\* Non-audit services – training, allowed IT services

# Report on Relations among Related Entities

for the year ended 31 December 2017

(hereinafter the “**Report on Relations**”)

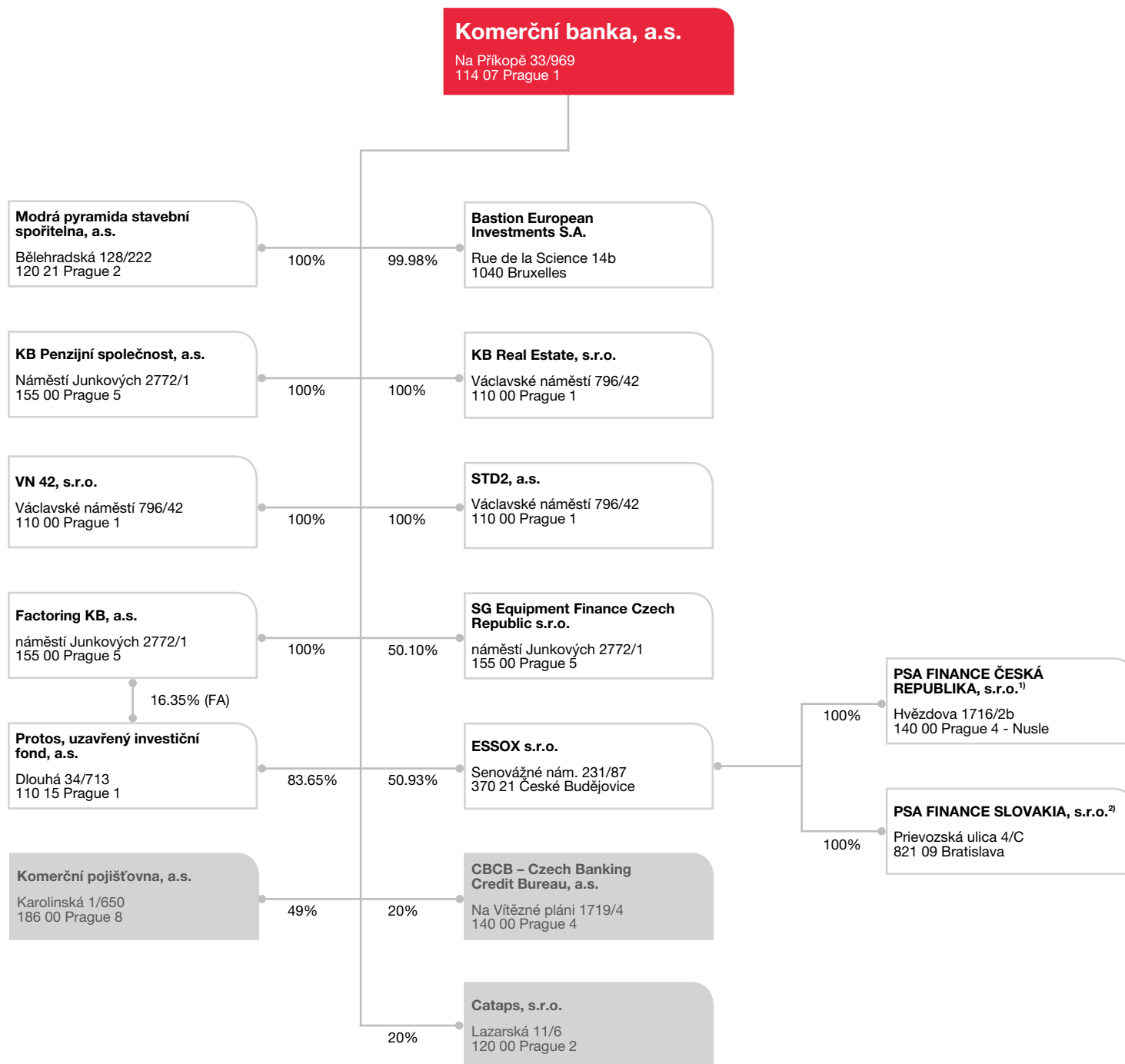
Komerční banka, a.s., with its registered office in Prague 1, Na Příkopě 33/969, 114 07, Corporate ID: 45317054, incorporated in the Register of Companies maintained by the Municipal Court in Prague, Section B, File 1360, (hereinafter “**KB**” or “**Komerční banka**”), is part of a business group (holding company) in which there exist the following relations between KB and its controlling entity and further between KB and other entities controlled by the same controlling entities (hereinafter the “**related entities**”).

This Report on Relations was compiled in accordance with Section 82 et seq. of Act No. 90/2012 Coll., on Business Corporations and Co-operatives (the Business Corporations Act) for the year ended 31 December 2017, that is, from 1 January 2017 to 31 December 2017 (hereinafter the “**reporting period**”).

## I. Introduction

### **Structure of relations among entities within the business group:**

In the period from 1 January 2017 to 31 December 2017, KB was a member of the Société Générale S.A. Group, with its registered office at 29, BLD Haussmann, 75009 Paris, France, registration number in the French Register of Companies: R.C.S. Paris B552120222 (1955 B 12022) (hereinafter “**SG**” or “**SG Paris**”). The structure of relations within KB Group is shown below and the structure of relations within the whole of SG Group is shown in the annex:



<sup>1)</sup> As of 1 January 2018, the company merged with Essox, s.r.o.

<sup>2)</sup> As of 1 January 2018, the company changed its trade name to Essox Finance, s.r.o. and its registered office moved to Karadžičova 16, 821 08 Bratislava, Slovakia.

During the 2017 reporting period, KB had business relationships with the following related entities:

**a) SG head office and branches**

Company	Registered office
SG Paris *	29, Boulevard Haussmann, Paris, France
SG London	House 41 Tower Hill 99132, EC3N 4SG, London, Great Britain
SG New York	245 Park Avenue, 10167 New York, USA,
SG Istanbul	Nispetye Cad. Akmerkez E-3 Blok Kat.9 ETILER 80600 Istanbul, Turkey
SG Zürich	Sihlquai 253, 8031 Zürich, Switzerland
SG Warsaw	Ul. Marszalkowska 111, Warsaw, Poland
SG Frankfurt	Neue Mainzer Strasse 46-50, 60311, Frankfurt am Main, Germany
SG Brussels	Tour Bastion, 5 Place du Champs de Mars, 1050 Brussels, Belgium
SG Wien	Prinz Eugen Strasse 32, A1041, Vienna, Austria
SG Milan	Via Olona 2, 20123 Milan, Italy
SG Amsterdam	Rembrandt Tower, A Amstelplein 1, 1096 HA Amsterdam, the Netherlands
SG Hong Kong	11-19A Queen's Road Central, Hong Kong, Hong Kong
SG EN Espana	Gran Via 30, 28013, Madrid, Spain
SG Seoul	D1 D-Tower, 17, Jongno 3-Gil, Jongno-gu, 03155, Seoul, South Korea
SG Singapore	8 Marina Boulevard, 018981, Singapore
SG Mumbai	Ganapatrao Kadam Marg, Lowe Parel, 400013, Bombay, India
SG Tokyo	Palace Building, 1-1-1 Marunouchi, Chiyoda-ku, 100-8206 Tokyo, Japan

\* including branches

**b) SG subsidiaries**

Company	Registered office	SG's share in voting rights
ALD (SIA)	K. Ulmana gatve 119, Riga, LV-2167, Latvia	75
ALD (UAB)	Ukmerges 283, Vilnius, LT -06313, Lithuania	75
ALD Automotive Hungary	1133 Budapest, Váci út 76, Hungary	100
ALD Automotive Polska sp. z.o.o.	Ostrobramska 101A, 04-041 Warsaw, Poland	100
ALD Automotive s.r.o.	U Stavoservisu 527/1, Prague 10, 10040, Czech Republic	100
ALD Automotive Slovakia s.r.o.,	Panónska cesta 47, Bratislava 851 01, Slovakia	100
ALD EESTI AS	Akadeemia tee15A, 12618 Tallinn, Estonia	75.01
Banca Romana Pentru Dezvoltare (B.R.D.)	Boulevard Ion Mihalache No. 1-7, sector I, Bucharest, Romania	100
Crédit du Nord	28 Place Rihour 59800 Lille, France	100
European Fund Services, SA	17 rue Antoine Jans L-1820 Luxembourg, Luxembourg	100
Inter Europe Conseil	29, Boulevard Haussmann, 75009, Paris, France	100
Komerční pojišťovna, a.s.	Karolinská 1, č.p. 650, Prague 8, 18600, Czech Republic	100
Lyxor International Asset Management (LIAM)	Tour Société Générale, 17 Cours Valmy, 92800 Puteaux, France	100
MOBIASBANCA GOUPE SG	81a, Stefan cel Mare si Sfanta ave, Chisinau, Moldavia	100
Newedge Group (Frankfurt branch)	Neue Mainzer Strasse 52, 60311 Frankfurt am Main, Federal Republic of Germany	100
OHRIDSKA BANKA AD SKOPJE	ul. Orce Nikolov br. 54, Skopje, 1000 Macedonia	100
Société Générale Newedge UK Limited	10 Bishops Square, London, E1 6EG, Great Britain	100
PEMA Polska sp. z. o. o.	Ul. Krzysztofa Kolumba 3, 62-052 Komorniki, woj. Wielkopolskie, Poland	100
PEMA Praha, spol. s r.o.	Ul. Dopraváků 723, 184 00 Prague 8, Czech Republic	100
PEMA Slovakia, spol. s r. o.	Pri Prachárni 20, 04001 Košice, Slovakia	100
Rosbank	11 Masha Poryvaeva Street, 107 078 Moscow, Russian Federation	100
SG Albania	Blv. Deshmoret e Kombit Twin Towers, Kulla II, Kati Perdhe, Tirane, 1000, Albania	100
SG Algeria	Résidence EL KERMA, 16 105 Gué de Konstantine, Algeria	100
SG Asset Management Alternative Investments (SGAM AI)	170 place Henri Renault, 92400 Courbevoie, France	100
SG De Bank Au Liban	Masraf Street, Beirut, Lebanon	16.79
SG Equipment Finance Hungary Plc.	1062 Budapest, Vaci út 1-3, Hungary	100



Company	Registered office	SG's share in voting rights
SG Equipment Leasing Hungary Ltd	1062 Budapest, Vaci út 1-3, Hungary	100
SG Equipment Leasing Polska	Marszalkowska 111 St., 00-102 Warsaw, Poland	100
SG Express Bank	Vladislav Varnenchik Blvd. 92, 9000 Varna, Bulgaria	100
SG China Ltd.	Taikang International Tower, Wudinghou Street, Xicheng District, 100140 Peking, China	100
SG Hambros	8 St James's Square, London, Great Britain	100
SG Issuer S.A. (SGBT)	15 Boulevard du Prince Henri Luxembourg, 1724, Luxembourg	100
SG Marocaine de Banques	55, boulevard Abdelmoumen, Casablanca, Morocco	100
SG Private Banking (Suisse) SA	Rue de la Corratierie 6, Case Postale 5022, CH-1211 Geneva 11, Switzerland	100
SG Private Banking Belgique	Rue des Colonies, 11,1000 Brussels, Belgium	100
SG Private wealth management SA	11-13 Avenue Emile Reuter L-2420 Luxembourg, Luxembourg	100
SG Securities (London) Ltd.	Exchange House – 12 Primrose Street, London EC2A 2EG, Great Britain	100
SG Securities Services	Via Benigno Crespi 19, 20159 Milano, Italy	100
SG Sucursal en Espana	Genova 26, Madrid, Spain	100
SG Option Europe	17 Cours Valmy, La Defense Cedex, Paris, France	100
SG Splitska Banka	Rudjera Boskovic 16, 21000 Split, Croatia	100
SG Vehicle Finance Hungary Plc.	1062 Budapest, Vaci út 1-3, Hungary	100
SGA Société Générale Acceptance N.V.	Pietermaai 15, Willemstad, Netherlands Antilles	100
SG Bank & Trust (SGBT)	11-13 Avenue Emile Reuter L-2420 Luxembourg, Luxembourg	100
SG Montenegro	Bulevar Revolucije br. 17, Podgorica 81000, Montenegro	100
SG Srbija	50 Bulevar Zorana Dindica, Serbia	100
SKB Banka	Ajdovscina 4, 1513 Ljubljana, Slovenia	100
Sogecap	50 avenue du Général de Gaulle, 92093 Paris, La Défense CEDEX, France	100
Sogeprom Česká republika s.r.o.	Legerova 802/64, Prague 2 – Vinohrady, 120 00, Czech Republic	100

### c) KB subsidiaries

Company	Registered office	SG's share in voting rights
Essox s. r. o.	Senovážné náměstí 231/7, České Budějovice, postal code 370 21, Czech Republic	100
Factoring KB a. s.	náměstí Junkových 2772/1, Prague 5 – Stodůlky, postal code 155 00, Czech Republic	100
Modrá pyramida stavební spořitelna, a. s.	Bělehradská 128/222, Prague 2, postal code 120 21, Czech Republic	100
KB Penzijní společnost, a.s.	náměstí Junkových 2772/1, Prague 5 – Stodůlky, postal code 155 00, Czech Republic	100
Protos, uzavřený investiční fond, a. s.	Dlouhá 34, č. p. 713, Prague 1, postal code 110 15, Czech Republic	100
Bastion European Investments S. A.	Rue de la Science14b,1040 Brussels, Belgium	100
SG Equipment Finance Czech Republic s. r. o.	náměstí Junkových 2772/1, Prague 5 – Stodůlky, postal code 155 00, Czech Republic	100
KB Real Estate s. r. o.	Václavské náměstí 796/42, postal code 110 00, Prague 1, Nové Město, Czech Republic	100
VN 42, s.r.o.	Václavské náměstí 796/42, postal code 110 00, Prague 1, Nové Město, Czech Republic	100
NP 33, s. r. o. <sup>1)</sup>	Václavské náměstí 796/42, postal code 110 00, Prague 1, Nové Město, Czech Republic	100
Cataps, s. r. o.	Lazarská 11/6, postal code 120 00, Prague 2, Nové Město, Czech Republic	20
STD2, a.s. <sup>2)</sup>	Václavské náměstí 796/42, postal code 110 00, Prague 1, Nové Město, Czech Republic	100
PSA FINANCE ČESKÁ REPUBLIKA, s.r.o. <sup>3)</sup>	Hvězdova 1716/2b, Nusle, 140 00 Prague 4	100
PSA FINANCE SLOVAKIA, s.r.o. <sup>4)</sup>	Prievozska ulica 4/C, 821 09 Bratislava	100

1) The company NP 33, s. r. o was sold on 1 March 2017. On that day, it ceased to be a member of SG group.

2) The company STD2, a.s. was acquired by KB on 31 October 2017. On that day, it became part of SG group.

3) As of 1 January 2018, the company merged with Essox, s.r.o.

4) As of 1 January 2018, the company changed its trade name to Essox Finance,s.r.o. and its registered office moved to Karadžičova 16, 821 08 Bratislava, Slovakia.

### Role of Komerční banka within the Group:

Komerční banka is the parent company of KB Group and is part of the international financial group of Société Générale (hereinafter “SG Group”). As a part of SG Group, Komerční banka provides universal banking services on the territory of the Czech Republic and Slovakia and is a universal bank offering a wide range of services in the area of retail, corporate and investment banking. KB Group companies offer additional specialised services, including pension savings and building society schemes, leasing, factoring, consumer lending and insurance. As a part of KB Group, the Bank provides certain subsidiaries with trademark licences. Komerční banka provides certain IT services, other services and advisory in the area of human resources, and advisory in the areas of compliance, operational risks and insurance within SG Group. KB internal audit carries out audit missions within SG Group according to the approved audit plan.

The products of KB’s subsidiaries are sold using Komerční banka’s sales network. KB provides banking services in Slovakia through its branch there. Komerční banka offers some of its products using, inter alia, the network of Modrá pyramida stavební spořitelna, a.s.

As a part of its management and control system KB receives data on the whole control and management system and also provides these data, including data on KB, to the company SG (the data include, inter alia, budgets, business plans, business continuity and crisis management plans, and anti-money laundering measures).

KB intermediates SG’s control over KB’s subsidiaries and participates in the creation of group policies on the territory of the Czech Republic and Slovakia.

### Manner and means of control

Société Générale, as the majority shareholder, exerts its influence on KB’s activity through the General Meeting, has four representatives on the Bank’s nine-member Supervisory Board and one representative on the three-member Audit Committee. One Société Générale employee is seconded to the Board of Directors of Komerční banka as its member, and the term of office of one of Société Générale’s members on the Board of Directors expired in the course of the year. Furthermore, based on a contract entered into by and between SG and KB, SG seconds its employees to certain positions. At this time, there are eleven such employees within KB.

In accordance with Section 79 of the Business Corporations Act, SG is a controlling entity in respect to KB. Control is formally exercised by implementing SG’s methodologies in KB’s internal regulations, in particular in the area of risk management and capital adequacy. Furthermore, there is informal control in the form of consultancy on individual areas of KB’s activity.

The intermediation of SG’s control over KB’s subsidiaries is formally represented by the implementation of KB’s methodologies in the subsidiaries’ internal regulations, and informal control takes the form of consultancy on individual activity areas.

## II. Relations within the Group

### A. Important actions adopted in the reporting period at the initiative or in the interest of the controlling entity or entities controlled by the controlling entity in respect of assets exceeding 10% of the controlled entity’s equity

No such actions were adopted.

### B. Overview of mutual contracts between the controlled entity and the controlling entity or among controlled entities

#### Banking transactions

During the reporting period, Komerční banka had the relationships stated below that are subject to banking secrecy with the controlled entities in the areas listed below.

#### Deposit arrangements

In the deposit segment, KB had entered into arrangements with 27 branches and subsidiaries of SG Group as of the end of the reporting period. As of 31 December 2017, KB maintained a total of 59 accounts, of which 27 were *loro* accounts for branches and subsidiaries of SG Group, 29 were current accounts and 3 were overdraft accounts opened for non-banking entities of SG Group. The average monthly overdraft balance (borrowing) on *loro* accounts was CZK 274.76 million; the average monthly credit balance (deposit) was CZK 4,185.4 million. During the reporting period, the average monthly credit balance on current and overdraft accounts was CZK 394.27 million; the average monthly overdraft balance on these accounts was CZK 151.9 million. During the reporting period, KB’s interest income on overdraft accounts and overdrafts on current accounts was CZK 0.44 million; income from the fees associated with the maintenance of accounts and related transactions amounted to CZK 5.67 million.

KB's cross-border payment transactions were partly conducted through nostro accounts maintained with SG Paris, B.R.D, SG New York, SG Warszawa, SG Express Bank, Rosbank, SG Splitska Banka and SG China. During the reporting period, KB's average monthly deposit on nostro accounts with SG was CZK 316.14 million; the average monthly overdraft balance on nostro accounts was CZK 279.05 million. Interest income on nostro accounts for the reporting period was CZK 0.134 million; interest expenses amounted to CZK 2,041 million. KB's expenses arising from the fees for the maintenance of, and transactions on, nostro accounts for the reporting period were CZK 19 million; income fees (i.e. provided discounts from credit operations on nostro accounts) amounted to CZK 3.3 million. KB's income arising from the fees from loro accounts for the reporting period was CZK 2.752 million. Interest expenses paid by KB on loro accounts amounted to CZK 83.9 thousand and interest income totalled CZK 0.693 million in the reporting period.

Seven subsidiaries of SG Group held term deposits (including depository bills) with KB during the reporting period. The average monthly balance of these deposits was CZK 21,806.7 million in the reporting period. The aggregate amount of interest expenses from term deposits (including depository bills) was CZK 3.5 million for the reporting period.

Nostro, loro, current, term and overdraft accounts of related entities were maintained under standard terms and conditions.

#### ***Loan arrangements***

In the loan segment, KB provided loans during 2017 to two SG Group subsidiaries. These totalled 228 loans in the aggregate amount of CZK 6,030.8 million. The average monthly balance of the loans during the reporting period was CZK 5,561.5 million. The aggregate amount of interest income was CZK 33.387 million.

As of the end of the reporting period, KB had provided nine entities of SG Group with bank guarantees (payment, non-payment) in the amount of CZK 1,744.98 million.

As of the end of the reporting period, KB had received guarantees from three SG Group entities as collateral for loans provided to clients in the aggregate amount of CZK 7,867.2 million. The aggregate amount of fees for guarantees received in the reporting period amounted to CZK 5.4 million.

#### ***Investment banking arrangements***

In the investment banking segment, KB carried out transactions with 11 branches and subsidiaries from within SG Group. The total number of transactions was 42,496 (2,280 on-balance sheet transactions and 40,216 off-balance sheet transactions) in the aggregate nominal amount of CZK 3,477,726 million. The income from the investment banking transactions amounted to CZK 32,547.16 million and the costs totalled CZK 1,145.6 million.

The aggregate nominal amount of on-balance sheet transactions was CZK 1,626,218.4 million and consisted of the following:

- Depository transactions – a total of 1,617 transactions in the aggregate amount of CZK 1,493,419.6 million; and
- Securities held for trading – a total of 663 transactions in the aggregate amount of CZK 132,798.8 million.

The aggregate nominal amount of off-balance sheet transactions was CZK 1,851,507.3 million and consisted of the following:

- Foreign currency transactions (spots, forwards, swaps) totalling 26,239 transactions in the aggregate nominal amount of CZK 744,749.1 million;
- Interest rate derivative transactions (interest rate swaps and futures) totalling 918 transactions in the aggregate nominal amount of CZK 440,253.5 million;
- Option transactions with currency instruments totalling 9,377 transactions in the aggregate nominal amount of CZK 152,535.6 million;
- Commodity transactions were carried out only with SG Paris; KB executed 3,293 transactions in the aggregate amount of CZK 27,796.8 million;
- Emission allowance transactions: During the reporting period, KB executed a total of 227 transactions in the aggregate amount of CZK 2,270.4 million with SG Paris;
- Repo transactions: During the reporting period, KB executed a total of 162 transactions in the aggregate nominal amount of CZK 483,901.9 million with SG Paris;

All of the banking products were provided under standard terms and conditions, in accordance with KB's price list, and while taking into consideration the creditworthiness of individual clients under conditions customary in business or interbank transactions. None of these transactions were carried out at the instruction of the controlling entity. KB incurred no damage as a result of banking transactions entered into during the reporting period.

## Other mutual contracts

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Mutual co-operation agreement + 1 amendment dated 1 Jul 2010 (banking services)	ALD Automotive s.r.o.	1 Aug 2007
Co-operation agreement – Jobs	ALD Automotive s.r.o.	9 Jun 2010
Framework service agreement (IT area)	ALD Automotive s.r.o.	31 Aug 2010
Accession to the rules of co-operation between KB and group members in the area of sourcing and procurement	ALD Automotive s.r.o.	16 Aug 2011
Framework agreement to lease a vehicle	ALD Automotive s.r.o.	7 Jan 2015
Lease of non-residential premises – Ostrava	ALD Automotive s.r.o.	31 Oct 2003
Lease of non-residential premises – České Budějovice	ALD Automotive s.r.o.	1 Dec 2003
Lease of non-residential premises – Pilsen	ALD Automotive s.r.o.	17 Feb 2004
Co-operation agreement + amendment dated 7 Dec 2015	ALD Automotive s.r.o.	29 Mar 2013
Lease of non-residential premises – Hradec Králové + amendment dated 13 Feb 2015	ALD Automotive s.r.o.	31 Mar 2013
Agreement – Outsourcing of HR services + Amendment No. 1	ALD Automotive s.r.o.	1 Apr 2013 1 Apr 2016
Framework agreement for full-service leasing and finance leasing with subsequent purchase + Amendment No. 1	ALD Automotive s.r.o.	22 May 2013 31 May 2016
Agreement for co-operation in performance of the contract for employee group risk insurance	ALD Automotive s.r.o.	29 Oct 2013
Service contract – Lease of a mailing machine, provision of postal services	ALD Automotive s.r.o.	17 Jul 2014
Agreement for co-operation in performance of the group insurance agreement for work-related accident and occupational disease insurance for Members of Board of Directors and administrators of the financial group of Komerční banka and Société Générale	ALD Automotive s.r.o.	29 Dec 2014
Lease of non-residential premises – Pilsen	ALD Automotive s.r.o.	30 Sep 2015
Non-disclosure agreement	ALD Automotive s.r.o.	9 Jul 2010
Cooperation agreement	ALD Automotive s.r.o.	26 Sep 2016
Lease of non-residential premises – Brno	ALD Automotive s.r.o.	1 Jan 2017
Separate agreement No. 3 – Provision of solution-related services	ALD Automotive s.r.o.	30 Jun 2017
Service contract – Outsourcing (HR services)	ALD Automotive s.r.o.	21 Dec 2017
Non-disclosure agreement	ALD Automotive Slovakia s.r.o.	19 Oct 2015
Service contract – Outsourcing (HR services)	ALD Automotive Slovakia s.r.o.	1 Jan 2016
Framework agreement – Full-service leasing, finance leasing	ALD Automotive Slovakia s.r.o.	8 Jun 2016
Cooperation agreement	ALD Automotive Slovakia s.r.o.	28 Mar 2013
Cooperation agreement + 1 amendment	ALD Automotive Slovakia s.r.o.	9 Oct 2003
Custodian services agreement + 1 amendment	B.R.D.	20 Oct 2011
Service level agreement	B.R.D.	20 Oct 2011
EUR Account Agreement	B.R.D.	3 Dec 2015
Service contract (client)	ESSOX s.r.o.	21 Sep 2005
Mutual co-operation agreement + 1 amendment (recipient)	ESSOX s.r.o.	1 Aug 2007
Contract for the procurement of acquisition or sale of securities + 1 amendment	ESSOX s.r.o.	6 Dec 2007
Co-operation agreement	ESSOX s.r.o.	17 Sep 2008
Co-branded cards distribution agreement + 1 amendment	ESSOX s.r.o.	16 Jan 2009
Framework agreement for financial market trading	ESSOX s.r.o.	16 Apr 2009
Co-operation agreement + 1 amendment	ESSOX s.r.o.	20 Oct 2009
Confidentiality agreement	ESSOX s.r.o.	9 Jul 2010
Individual pricing agreement + 1 amendment	ESSOX s.r.o.	27 Apr 2009
Agreement on the organisation of periodic control + 1 amendment (client)	ESSOX s.r.o.	28 Feb 2011
Personal data processing framework agreement (administrator)	ESSOX s.r.o.	12 Apr 2011
Contract - Soft Collection 0000021702/0000	ESSOX s.r.o.	29 Apr 2015
Service contract – Outsourcing + 5 amendments (provider)	ESSOX, s.r.o.	15 Dec 2009
Service contract – Outsourcing (HR services) + 1 amendment	ESSOX s.r.o.	21 Dec 2011
Framework agreement for the provision of financial services + 3 amendments (client)	ESSOX s.r.o.	31 Jul 2014
Service level agreement	ESSOX s.r.o.	25 Nov 2014
Service agreement	ESSOX s.r.o.	6 Feb 2017

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Memorandum of Understanding - Project AS/400 Lifecycle Renewal	ESSOX s.r.o.	3 Apr 2017
Distribution agreement for product “Corporate Car Loans” + 1 amendment	ESSOX s.r.o.	1 Aug 2012
Individual pricing agreement (client) + 1 amendment	ESSOX s.r.o.	27 Aug 2012
Co-branded cards co-operation agreement	ESSOX s.r.o.	28 Dec 2012
Framework service agreement (recipient)	ESSOX s.r.o.	26 Apr 2011
Separate agreement No. 1 – Provision of services for access to KB’s external entity	ESSOX s.r.o.	30 Jun 2011
Service contract – C4M access + 1 amendment	ESSOX s.r.o.	29 Jul 2011
Contract for exchange of negative client information within KB/SG Financial Group in the Czech Republic	ESSOX s.r.o.	19 Aug 2011
Separate agreement No. 2 – Provision of technical infrastructure services, service hosting	ESSOX s.r.o.	29 Aug 2014
Confidentiality agreement	ESSOX, s.r.o.	10 May 2010
Agreement for the provision of a chip card reader + 1 amendment	ESSOX, s.r.o.	12 May 2014
Agreement for the provision of a PROFIBANKA chip card reader	ESSOX, s.r.o.	26 Jun 2007
Agreement for the provision of a chip card reader, administration order	ESSOX, s.r.o.	26 May 2017
Agreement for co-operation in performance of the contract for employee group risk insurance No. 3280000000 in the wording of amendment No. 1 of 29 Jun 2012	ESSOX s.r.o.	22 Aug 2012
Group insurance agreement for work-related accident and occupational disease insurance for Members of Board of Directors and administrators of the financial group of Komerční banka and Société Générale N°334000000	ESSOX s.r.o.	14 Jul 2016
Contract for the payment of insurance premium and of insurance broker’s commission	ESSOX, s.r.o.	23 Aug 2016
Agreement for framework insurance contract No. 7720802024	ESSOX, s.r.o.	10 Feb 2014
Lease of non-residential premises and payment of relating services + 1 amendment (lessee)	ESSOX, s.r.o.	8 Mar 2006
Agreement to enter into a lease of non-residential premises and payment of relating services (future sub-lessee)	ESSOX, s.r.o.	27 Mar 2015
Lease of non-residential premises and payment of relating services + 2 amendments	ESSOX, s.r.o.	10 Jan 2017
Lease of parking places	ESSOX, s.r.o.	9 Mar 2017
Sublease agreement	ESSOX, s.r.o.	9 May 2017
Purchase contract – movable things	ESSOX s.r.o.	11 Apr 2017
Service level agreement	European Fund Services, SA	12 Nov 2008
Framework agreement for the provision of financial services No. 9900021839000 + 9 amendments	Factoring KB a.s.	31 Mar 2014
		2 Jun 2014
		20 May 2015
		15 Apr 2016
		22 Sep 2016
		21 Nov 2016
		21 Mar 2017
		20 Apr 2017
Framework agreement for the rental of employee-driven motor vehicles	Factoring KB a.s.	11 Jul 2017
		23 Oct 2017
		22 Sep 2014
		31 Oct 2013
		22 Dec 2017
		27 Dec 2012
		1 Aug 2013
		8 Sep 2010
Database usage license agreement	Factoring KB a.s.	1 Apr 2011
IT – Separate agreement No. 1, connectivity services, provision of technical infrastructure solution services	Factoring KB a.s.	1 Dec 2012
IT – Separate agreement No. 2, physical hosting of equipment, provision of technical infrastructure solution services + 1 amendment	Factoring KB a.s.	1 Dec 2012
IT – Separate agreement No. 3, IT infrastructure hosting, provision of technical infrastructure solution services + 1 amendment	Factoring KB a.s.	25 Oct 2016
IT – Separate agreement No. 4, VoIP, provision of technical infrastructure solution services	Factoring KB a.s.	1 Dec 2012
		23 May 2017
		31 Dec 2012

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
IT – Separate agreement No. 5, e-mail, provision of technical infrastructure solution services	Factoring KB a.s.	25 May 2015
IT – Separate agreement No. 6, fileshare, provision of technical infrastructure solution services	Factoring KB a.s.	29 Feb 2016
IT – Separate agreement No. 7, end user workplace (EUV), provision of technical infrastructure solution services	Factoring KB a.s.	18 Jan 2016
IT – Separate agreement No. 8, service desk (SD), provision of technical infrastructure solution services	Factoring KB a.s.	18 Jan 2016
IT – Separate agreement No. 9, identity and access, provision of technical infrastructure solution services	Factoring KB a.s.	18 Jan 2016
IT – Separate agreement No. 10, platform hosting, provision of technical infrastructure solution services	Factoring KB a.s.	18 Jan 2016
IT – Separate agreement No. 11, DR (disaster recovery), provision of technical infrastructure solution services	Factoring KB a.s.	18 Jan 2016
IT – Separate agreement No. 12, vulnerability detection (VD), provision of technical infrastructure solution services	Factoring KB a.s.	28 Aug 2016
Service contract – information security services	Factoring KB a.s.	27 Oct 2015
Co-operation agreement No. 0000020447/0000 + 1 amendment (Framework agreement)	Factoring KB a.s.	31 Dec 2012
Service level agreement – Co-operation in the area of reporting and accounting	Factoring KB a.s.	26 Nov 2014
Contract for the provision of supplementary service – Profi Merlin – PO (1)	Factoring KB a.s.	8 Jan 2016
Lease of non-residential premises and payment of relating services	Factoring KB a.s.	1 Apr 2017
Lease of non-residential premises, movable assets and payment of relating services + 1 amendment	Factoring KB a.s.	18 Jun 2008 19 Dec 2011
Lease of non-residential premises and payment of relating services	Factoring KB a.s.	30 Sep 2015
Lease of non-residential premises, movable assets and payment of relating services	Factoring KB a.s.	14 Dec 2017
Lease of non-residential premises, movable assets and payment of relating services + 4 amendments	Factoring KB a.s.	30 Aug 2012 30 Dec 2014 4 May 2017 21 Feb 2017 28 Dec 2017
Sublease agreement for parking places, building No. 2772 + 2 amendments	Factoring KB a.s.	28 Aug 2012 21 Feb 2017 28 Dec 2017
Sublease agreement for parking places	Factoring KB a.s.	23 Mar 2015
Sublease agreement for parking places – outside parking + 2 amendments	Factoring KB a.s.	1 Jan 2013 21 Feb 2017 28 Dec 2017
License agreement – LOGO + 1 amendment	Factoring KB a.s.	20 Dec 2004 29 Jan 2015
Contract for the payment of insurance premium and of insurance broker's commission	Factoring KB a.s.	17 Jun 2016
Agreement for co-operation in performance of contract for employee group risk insurance No. 3280000000, in the wording of Amendment No. 1	Factoring KB a.s.	24 Aug 2012
Agreement for co-operation in performance of group insurance agreement for work-related accident and occupational disease insurance for Members of Board of Directors and administrators of the financial group of Komerční banka and Société Générale No. 334000000	Factoring KB a.s.	26 Sep 2016
Mutual co-operation agreement + 1 amendment – Provision of banking services to employees	Factoring KB a.s.	1 Aug 2007 1 Jul 2010
Agreement – Outsourcing of HR services (excluding payroll) KB Agr. No. 20596/0000 + Amendment (2)	Factoring KB a.s.	1 Jan 2013 1 Oct 2013 31 Mar 2016
Service contract – Outsourcing (HR services) + 1 amendment	Factoring KB a.s.	4 Jan 2010 1 Apr 2016
Co-operation agreement – jobs (vacancies staffing)	Factoring KB a.s.	28 Apr 2010
Distribution agreement + 1 amendment	Factoring KB a.s.	1 Dec 2008 10 Jan 2013
Framework agreement – personal data processing	Factoring KB a.s.	1 Dec 2008
Confidentiality agreement	Factoring KB a.s.	9 Aug 2010



Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Rules for co-operation between KB and members of the Group in the field of sourcing and purchasing	Factoring KB a.s.	4 Oct 2010
Agreement on the organisation of periodic control (internal audit services) + 1 amendment	Factoring KB a.s.	5 May 2011
Service contract – access to C4M – amendment (1)	Factoring KB a.s.	24 May 2011 29 May 2012
Service contract – Safety at work, environment protection, fire protection + 1 amendment	Factoring KB a.s.	30 Jan 2015 22 Dec 2017
License agreement + amendment No. 1	KB Penzijní společnost, a.s.	20 Dec 2004 18 Dec 2014
Framework agreement for personal data processing	KB Penzijní společnost, a.s.	11 Aug 2006
Service contract (sharing data from subsidiaries) + Amendment nos. 1 and 2	KB Penzijní společnost, a.s.	24 Nov 2006 28 Aug 2009 6 May 2010
Mutual co-operation agreement + Amendment No. 1	KB Penzijní společnost, a.s.	1 Aug 2007 1 Jul 2010
Agreement for co-operation within the Group under Section 5a of Act No. 235/2004 Coll., the VAT Act + Amendments nos. 1 and 2	KB Penzijní společnost, a.s.	19 Nov 2008 22 Oct 2009 6 Aug 2014
Agreement on KB Call Centre services + Amendment No. 1	KB Penzijní společnost, a.s.	31 Dec 2009 31 Dec 2013
Service contract – Outsourcing (HR services) + Amendment No. 1	KB Penzijní společnost, a.s.	4 Jan 2010 6 Dec 2016
Service contract – Outsourcing + Amendment No. 1	KB Penzijní společnost, a.s.	9 Jan 2010 11 Sep 2013
Co-operation agreement – Jobs	KB Penzijní společnost, a.s.	28 Apr 2010
Confidentiality agreement	KB Penzijní společnost, a.s.	9 Jul 2010
Rules for co-operation between KB and members of the Group in the field of sourcing and purchasing	KB Penzijní společnost, a.s.	13 Sep 2010
IT service framework agreement + Amendment No. 1	KB Penzijní společnost, a.s.	2 Nov 2010 31 Dec 2014
Notification service contract (Contract No. 1 relating to Framework Agreement)	KB Penzijní společnost, a.s.	10 Jun 2011
Contract for the provision of technical infrastructure services – Connectivity services (Contract No. 2 relating to Framework Agreement)	KB Penzijní společnost, a.s.	20 Dec 2012
Contract for the provision of technical infrastructure services – Physical hosting of equipment (Contract No. 3 relating to Framework Agreement) + Amendment No. 1	KB Penzijní společnost, a.s.	20 Dec 2012 20 Jul 2016
Contract for the provision of technical infrastructure services – IT infrastructure hosting – VMWare (Contract No. 4 relating to Framework Agreement) + Amendment No. 1	KB Penzijní společnost, a.s.	20 Dec 2012 10 Feb 2017
Contract for the provision of technical infrastructure services – Voice over IP (Contract No. 5 relating to Framework Agreement)	KB Penzijní společnost, a.s.	31 Dec 2012
Contract for the provision of technical infrastructure services –Fileshare service (Contract No. 6 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Aug 2013
Contract for the provision of technical infrastructure services –Smartphone service (Contract No. 7 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Aug 2013
Contract for the provision of technical infrastructure services –EUW service (Contract No. 8 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Aug 2013
Contract for the provision of technical infrastructure services – service desk (Contract No. 9 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Aug 2013
Contract for the provision of technical infrastructure services –Email service (Contract No. 10 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Aug 2013
Contract for the provision of technical infrastructure services – Platform hosting (Contract No. 11 relating to Framework Agreement)	KB Penzijní společnost, a.s.	17 Jun 2014
Contract for the provision of technical infrastructure services – identity and access (Contract No. 13 relating to Framework Agreement)	KB Penzijní společnost, a.s.	31 Jan 2014
Contract for the provision of technical infrastructure services and user accounts – Small application operation (Contract No. 14 relating to Framework Agreement)	KB Penzijní společnost, a.s.	16 Feb 2017
Contract for the provision of technical infrastructure services – HW rental (Contract no. 15 relating to Framework Agreement)	KB Penzijní společnost, a.s.	20 Jul 2016

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Contract for the provision of technical infrastructure services – KBPS application development (Contract No. 16 relating to Framework Agreement)	KB Penzijní společnost, a.s.	4 Mar 2015
Contract for the provision of technical infrastructure services – Application Support (Contract No. 17 relating to Framework Agreement)	KB Penzijní společnost, a.s.	4 Mar 2015
Contract for the provision of technical infrastructure services – Notification service (Contract No. 18 relating to Framework Agreement)	KB Penzijní společnost, a.s.	3 Oct 2016
Agreement on the organisation of periodic control + Amendment No. 1	KB Penzijní společnost, a.s.	21 Jan 2011 30 Dec 2011
Compliance service agreement	KB Penzijní společnost, a.s.	1 Dec 2011
Co-operation agreement + Amendment No. 1	KB Penzijní společnost, a.s.	10 Aug 2012 30 Mar 2015
Sublease agreement + Amendments No. 1, 2, 3, 4	KB Penzijní společnost, a.s.	10 Aug 2012 26 Jun 2014 21 Feb 2017 4 May 2017 21 Dec 2017
Sublease agreement + Amendments No. 1, 2, 3, 4	KB Penzijní společnost, a.s.	10 Aug 2012 30 May 2014 8 Jan 2016 21 Feb 2017 21 Dec 2017
Agreement for co-operation in performance of contract for employee group risk insurance	KB Penzijní společnost, a.s.	22 Aug 2012
Agreement – Outsourcing of services (documentation processing)	KB Penzijní společnost, a.s.	25 Sep 2012
Distribution agreement for products “Pension Saving Plan – Pillar II” and “Supplementary Pension Saving Plan with a State Contribution – Pillar III” + Amendments nos. 1 and 2	KB Penzijní společnost, a.s.	21 Dec 2012 4 Sep 2013 20 Jan 2016
Agreement – Outsourcing of HR services (excluding payroll) + Amendment No. 1	KB Penzijní společnost, a.s.	1 Jan 2013 31 Mar 2016
Agreement – Outsourcing of services: operational risks + Amendment No. 1	KB Penzijní společnost, a.s.	25 Mar 2013 27 Mar 2015
Service agreement + Amendments No. 1 and 2	KB Penzijní společnost, a.s.	21 May 2013 2 Jun 2014 21 Dec 2017
Confidentiality agreement	KB Penzijní společnost, a.s.	12 Aug 2013
Contract for issue of payment place mandate	KB Penzijní společnost, a.s.	1 Oct 2013
Contract for personal data processing (in connection with contract for issue of payment place mandate)	KB Penzijní společnost, a.s.	1 Oct 2013
Service contract – Outsourcing – BI services	KB Penzijní společnost, a.s.	1 Nov 2013
Agreement to enter into framework insurance agreement	KB Penzijní společnost, a.s.	11 Feb 2014
Custody agreement	KB Penzijní společnost, a.s.	10 Jul 2014
Framework agreement for the rental of employee-driven motor vehicles	KB Penzijní společnost, a.s.	22 Sep 2014
Securities pledge agreement reg. No. 10000483595	KB Penzijní společnost, a.s.	17 Oct 2014
Framework agreement for financial market trading + Amendment No. 1	KB Penzijní společnost, a.s.	30 Oct 2014 23 Jun 2015
2 x Backup site provision agreement	KB Penzijní společnost, a.s.	10 Nov 2014
Service level agreement	KB Penzijní společnost, a.s.	24 Nov 2014
Contract of mandate – Supplier contract administration + Amendment No. 1	KB Penzijní společnost, a.s.	31 Dec 2014 6 Apr 2016
Agreement for work-related accident and occupational disease insurance for Members of Board of Directors and administrators of the financial group of Komerční banka and Société Générale N°333000000	KB Penzijní společnost, a.s.	23 Mar 2015
Parking place sublease agreement + Amendment No. 1	KB Penzijní společnost, a.s.	31 Mar 2015 7 Mar 2017
Service agreement – OHS, environmental protection and fire protection + Amendment No. 1	KB Penzijní společnost, a.s.	28 May 2015 21 Dec 2017
Purchase agreement	KB Penzijní společnost, a.s.	7 Mar 2016
Contract for the payment of insurance premium and of insurance broker's commission	KB Penzijní společnost, a.s.	17 Jun 2016

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Agreement for co-operation in performance of group insurance agreement for work-related accident and occupational disease insurance for Members of Board of Directors and administrators of the financial group of Komerční banka and Société Générale N°334000000	KB Penzijní společnost, a.s.	12 Sep 2016
Service contract – information security services	KB Penzijní společnost, a.s.	16 Sep 2016
Real estate lease agreement + 7 amendments	KB Real Estate, s.r.o.	4 Jun 2012 26 Sep 2012 4 Sep 2013 14 Dec 2013 31 Dec 2014 31 Dec 2015 31 Dec 2016 31 Dec 2017
Service contract – Outsourcing (accounting services)	KB Real Estate, s.r.o.	1 Apr 2015
Service contract – Outsourcing (support services)	KB Real Estate, s.r.o.	3 Nov 2015
Contract for the payment of insurance premium and of insurance broker's commission	KB Real Estate, s.r.o.	8 Jun 2016
Co-operation agreement	Komerční pojišťovna, a.s.	27 Dec 2000
Service contract – short-term bonds market	Komerční pojišťovna, a.s.	23 Oct 2001
Contract for individual group risk insurance, including 8 amendments	Komerční pojišťovna, a.s.	9 Jan 2003
Framework cooperation agreement – Spektrum insurance programme No. 3010000235 including 4 amendments	Komerční pojišťovna, a.s.	28 Jan 2003
Lease of non-residential premises, movable assets and payment of relating services – Jihlava, including 8 amendments	Komerční pojišťovna, a.s.	31 Jan 2003
PATRON collective insurance contract including 1 amendment	Komerční pojišťovna, a.s.	25 Aug 2003
Contract for collective insurance of credit cards of Komerční banka, a.s., no. 3040000000, including 3 amendments	Komerční pojišťovna, a.s.	1 Nov 2004
License agreement + 1 amendment	Komerční pojišťovna, a.s.	20 Dec 2004
Lease of non-residential premises, movable property and payment of relating services – Brno	Komerční pojišťovna, a.s.	31 May 2005
Co-operation agreement	Komerční pojišťovna, a.s.	22 Sep 2005
Framework agreement for personal data processing between KB and KP	Komerční pojišťovna, a.s.	24 Mar 2006
Contract to arrange "PATRON"	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to arrange "PROFI PATRON"	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to arrange "RISK LIFE FOR MORTGAGE LOANS" including 4 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to arrange "PROFI MERLIN" including 2 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to arrange "MERLIN" including 2 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to arrange "VITAL AND VITAL PLUS PROGRAM", including 2 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to arrange "VITAL GRANT", including 2 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to arrange "VITAL", including 5 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Payment co-operation agreement	Komerční pojišťovna, a.s.	29 May 2006
Contract to arrange "TRAVEL INSURANCE" including 3 amendments	Komerční pojišťovna, a.s.	14 Jun 2006
Contract to provide direct banking with Client's identification number	Komerční pojišťovna, a.s.	31 Aug 2006
Contract to arrange sale of VITAL INVEST, including 33 amendments	Komerční pojišťovna, a.s.	4 Oct 2006
Contract to provide direct banking – administration order	Komerční pojišťovna, a.s.	5 Oct 2006
TVIS/STVIS and spot transactions contract	Komerční pojišťovna, a.s.	7 Dec 2006
Contract to arrange the sale of "VITAL PREMIUM", including 8 amendments	Komerční pojišťovna, a.s.	18 Dec 2006
Contract for acceptance of payment cards – internet, including 1 amendment	Komerční pojišťovna, a.s.	29 Mar 2007
Agreement for the provision of a chip card reader	Komerční pojišťovna, a.s.	2 Apr 2007
Agreement to send electronic notifications of clearing	Komerční pojišťovna, a.s.	5 Jun 2007
Framework distribution contract, including 1 amendment	Komerční pojišťovna, a.s.	22 Jun 2007
Contract for the collective insurance of consumer loans No. 3010000000, including 6 amendments	Komerční pojišťovna, a.s.	1 Aug 2007
Mutual co-operation agreement, including 1 amendment	Komerční pojišťovna, a.s.	1 Aug 2007
Contract for collective insurance of credit cards of Komerční banka, a.s., no. 3040000000, including 3 amendments	Komerční pojišťovna, a.s.	1 Nov 2007
Agreement to terminate the contract for connection to KB's voice information system	Komerční pojišťovna, a.s.	10 Apr 2008

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Fees clearing agreement	Komerční pojišťovna, a.s.	1 Oct 2008
Contract of co-operation in the group VAT registration, including 2 amendments	Komerční pojišťovna, a.s.	21 Nov 2008 9 Sep 2014
Contract for collective insurance of payment cards No. 2149500001, including 9 amendments	Komerční pojišťovna, a.s.	26 Jan 2009
Contract to arrange "VITAL PLUS", including 4 amendments	Komerční pojišťovna, a.s.	14 Apr 2009
Contract for collective insurance of loans No. 3140000000, including 2 amendments	Komerční pojišťovna, a.s.	5 May 2009
Separate distribution agreement for product "Brouček" + 5 amendments	Komerční pojišťovna, a.s.	15 Jun 2009
Lease of non-residential premises, movable assets and payment of relating services – Ostrava, including 2 amendments	Komerční pojišťovna, a.s.	30 Sep 2009
Contract for collective insurance "MERLIN" and "PROFI MERLIN" No. 3170000000, including 8 amendments	Komerční pojišťovna, a.s.	5 Oct 2009
VITAL INVEST FORTE custody agreement including 2 amendments	Komerční pojišťovna, a.s.	6 Oct 2009
Contract for collective insurance of goods purchasing relating to credit cards No. 3190000000, including 1 amendment	Komerční pojišťovna, a.s.	29 Oct 2009
Agreement to co-operate in portfolio valuation	Komerční pojišťovna, a.s.	9 Dec 2009
Contract for acceptance of electronic payments made through Moje platba	Komerční pojišťovna, a.s.	14 Dec 2009
Call centre service contract	Komerční pojišťovna, a.s.	31 Dec 2009
Service contract – Outsourcing (HR services), including 1 amendment	Komerční pojišťovna, a.s.	21 Apr 2010
Custody agreement including 2 amendments	Komerční pojišťovna, a.s.	7 Jul 2010
Confidentiality agreement	Komerční pojišťovna, a.s.	9 Jul 2010
IT service framework agreement, including separate agreements 1–6 and including 1 amendment No. 3 to separate agreement No. 6	Komerční pojišťovna, a.s.	14 Sep 2010
Accession to the Rules of co-operation between KB and Group members in the area of sourcing and acquisitions	Komerční pojišťovna, a.s.	15 Oct 2010
Contract for collective insurance of the "A KARTA" and "LADY" credit cards no. 3230000000, including 1 amendment	Komerční pojišťovna, a.s.	1 Apr 2011
Lease of non-residential premises, movable assets and payment of relating services – Hradec Králové including 2 amendments	Komerční pojišťovna, a.s.	29 Aug 2011
Securities pledge agreement	Komerční pojišťovna, a.s.	3 Oct 2011
Contract for collective insurance of "Profi pojištění plateb" No. 3250000000, including 2 amendments	Komerční pojišťovna, a.s.	7 Dec 2011
Contract for collective insurance of "Moje pojištění plateb" No. 3240000000, including 2 amendments	Komerční pojišťovna, a.s.	7 Dec 2011
Separate agreement No. 1 relating to framework IT services agreement dated 14 Sep 2010	Komerční pojišťovna, a.s.	22 Feb 2012
Separate agreement No. 2 relating to framework IT services agreement dated 14 Sep 2010 + 1 amendment	Komerční pojišťovna, a.s.	22 Feb 2012
Separate agreement No. 3 relating to framework IT services agreement dated 14 Sep 2010 + 2 amendments	Komerční pojišťovna, a.s.	22 Feb 2012
Separate agreement No. 4 relating to framework IT services agreement dated 14 Sep 2010 + 2 amendments	Komerční pojišťovna, a.s.	22 Feb 2012
Contract for employee group risk insurance No. 3280000000 + 8 amendments	Komerční pojišťovna, a.s.	29 Feb 2012
Agreement for co-operation of 29 June 2012 in performance of the contract for employee group risk insurance No. 3280000000 in the wording of amendment No. 1 of 29 June 2012 (of the day 29. Feb. 2012)	Komerční pojišťovna, a.s.	29 Feb 2012
Individual pricing agreement + 2 amendments	Komerční pojišťovna, a.s.	30 Aug 2012
Separate agreement No. 5 – provision of notification services, including 1 amendment	Komerční pojišťovna, a.s.	7 Sep 2012
Framework agreement for financial market trading	Komerční pojišťovna, a. s.	19 Nov 2012
Contract to arrange Vital Premium in EUR, including 2 amendments	Komerční pojišťovna, a.s.	23 Nov 2012
Product development co-operation agreement No. 000020484/0000, including 2 amendments	Komerční pojišťovna, a.s.	21 Dec 2012
Framework agreement to indemnify clients	Komerční pojišťovna, a.s.	21 Jan 2013
Contract for collective insurance of corporate cards and golden corporate cards no. 3290000000	Komerční pojišťovna, a.s.	21 Jan 2013
Framework agreement for financial market trading – special provisions	Komerční pojišťovna, a.s.	11 Apr 2013
Contract for the provision of BI consulting, including 2 amendments	Komerční pojišťovna, a.s.	26 Jun 2013

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Contract for optional collective insurance of consumer loans No. 3300000000	Komerční pojišťovna, a.s.	28 Aug 2013
Contract to arrange the “MOJE JISTOTA” risk life insurance, including 3 amendments	Komerční pojišťovna, a.s.	27 Sep 2013
Administration order	Komerční pojišťovna, a.s.	13 Feb 2014
Minutes of the agreement not to provide a discount on administrative costs on expiration of Vital Plus contracts	Komerční pojišťovna, a.s.	7 Apr 2014
Insurance of the members of the governing bodies of KB/SG Group companies against job-related injury and occupational disease	Komerční pojišťovna, a. s.	1 Jul 2014
Separate agreement No. 6 – Provision of WEBEX technical infrastructure services no. 0000021303/0000	Komerční pojišťovna, a.s.	1 Aug 2014
Administration order	Komerční pojišťovna, a.s.	25 Aug 2014
Administration order	Komerční pojišťovna, a.s.	17 Oct 2014
Securities pledge agreement	Komerční pojišťovna, a.s.	5 Nov 2014
Service level agreement – Co-operation in the area of accounting and reporting	Komerční pojišťovna, a.s.	1 Jan 2015
Distribution agreement for product VITAL PREMIUM IN USD	Komerční pojišťovna, a. s.	31 Mar 2015
Cash-pooling agreement	Komerční pojišťovna, a. s.	23 Jun 2015
Administration order	Komerční pojišťovna, a.s.	31 Aug 2015
Agreement to provide a chip card reader	Komerční pojišťovna, a.s.	1 Oct 2015
Administration order	Komerční pojišťovna, a.s.	1 Oct 2015
Service contract – Outsourcing – BI services	Komerční pojišťovna, a.s.	10 Dec 2015
Service contract – Outsourcing – BI services (SOL2)	Komerční pojišťovna, a.s.	10 Dec 2015
Administration order	Komerční pojišťovna, a.s.	22 Dec 2015
Current account creation and maintenance contract	Komerční pojišťovna, a.s.	22 Dec 2015
Administration order	Komerční pojišťovna, a.s.	14 Apr 2016
Separate distribution agreement for product “MojePojištění majetku” + 1 amendment	Komerční pojišťovna, a.s.	25 Apr 2016
Contract for the payment of insurance premium and of insurance broker’s commission	Komerční pojišťovna, a.s.	30 Jun 2016
Administration order	Komerční pojišťovna, a.s.	7 Jul 2016
Group insurance agreement on work-related accident and occupational disease insurance for Members of the Board of Directors and administrators of the financial group of Komerční banka and Société Générale No. 334000000 + 1 amendment	Komerční pojišťovna, a.s.	13 Jul 2016
Agreement for co-operation in performance of group insurance agreement on work-related accident and occupational disease insurance for Members of the Board of Directors and administrators of the financial group of Komerční banka and Société Générale No. 334000000	Komerční pojišťovna, a.s.	4 Aug 2016
Administration order	Komerční pojišťovna, a.s.	30 Aug 2016
Administration order	Komerční pojišťovna, a.s.	22 Nov 2016
Agreement to pay the cost of using the IBM Websphere application Server license	Komerční pojišťovna, a.s.	1 Feb 2017
Administration order	Komerční pojišťovna, a.s.	10 May 2017
Administration order	Komerční pojišťovna, a.s.	16 Jun 2017
Separate agreement No. 7, provision of technical infrastructure solution services, SOC – Vulnerability Detection (VD)	Komerční pojišťovna, a.s.	1 Apr 2017
Agreement on contract termination – Payment cooperation agreement of 3 Dec 2007	Komerční pojišťovna, a.s.	24 Mar 2017
Payment cooperation agreement	Komerční pojišťovna, a.s.	3 Dec 2007
Direct banking provision agreement	Komerční pojišťovna, a.s.	6 Mar 2012
Administration order	Komerční pojišťovna, a.s.	9 Feb 2012
Commitment Letter - Accumulator Note in CZK	Komerční pojišťovna, a.s.	25 Apr 2015
Framework cooperation agreement	Komerční pojišťovna, a.s.	14 Jul 2004
Commitment Letter - Optimo 6Y EMTN in CZK	Komerční pojišťovna, a.s., SG	20 Sep 2011
Commitment letter (Optimo Komodity II)	Komerční pojišťovna, a.s., SG	24 Apr 2012
Commitment Letter - Accumulator Note in CZK	Komerční pojišťovna, a.s., SG	25 Apr 2015
Commitment Letter pro Certus, Certus 2 – agreement to sell the Vital Invest product	Komerční pojišťovna, a.s., SG	11 Feb 2013
Commitment Letter pro Certus 3	Komerční pojišťovna, a.s., SG	29 Jun 2015
Commitment Letter for Certus 4	Komerční pojišťovna, a.s., SG	26 Oct 2015
Commitment Letter for Certus 5	Komerční pojišťovna, a.s., SG	1 Feb 2016
Commitment Letter for Certus 6	Komerční pojišťovna, a.s., SG	18 Apr 2016

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Commitment Letter for Certus 7	Komerční pojišťovna, a.s., SG	17 Oct 2016
Commitment Letter for Certus 8	Komerční pojišťovna, a.s., SG	27 Mar 2017
Commitment Letter for Certus 9	Komerční pojišťovna, a.s., SG	30 Oct 2017
Distribution agreement, including amendments nos. 1 and 2	LIAM	15 Feb 2008
Contact bank agreement, including amendments nos. 1 and 2	LIAM	25 Feb 2008
Custody service agreement - OF	Modrá pyramida stavební spořitelna, a.s.	7 Jul 2010
Outsourcing agreement – Assessment of mortgage-related risks in the KB-RISK system	Modrá pyramida stavební spořitelna, a.s.	20 Dec 2011
Outsourcing agreement – Treasury - OF	Modrá pyramida stavební spořitelna, a.s.	7 Feb 2008
Framework financial market trading agreement - OF	Modrá pyramida stavební spořitelna, a. s.	18 Nov 2015
Universal contract to hand over cash in packaging -OF	Modrá pyramida stavební spořitelna, a.s.	15 May 2011
ATM placement contract No. 2004/2011/9526(ATM services at Kounicova 29, Brno)	Modrá pyramida stavební spořitelna, a.s.	3 Oct 2011
ATM placement contract No. 20076/0000 (ATM services at Jindřišská ul. 17, č.p. 889, Prague 1)	Modrá pyramida stavební spořitelna, a.s.	27 Feb 2012
ATM placement contract No. 20162/0000 (ATM services at Bělehradská 128, č.p. 222, Prague 2)	Modrá pyramida stavební spořitelna, a.s.	2 Apr 2012
Group co-operation agreement under S. 5a of VAT Act No. 235/2004 Coll., as amended, including amendments nos. 1 and 2 - OF	Modrá pyramida stavební spořitelna, a.s.	27 Nov 2008, Amendment no. 1 of 22 Oct 2009, Amendment No. 2 of 22 Aug 2014
Service level agreement (co-operation in the area of accounting and reporting, accounting and supplementary information for the needs of KB Group consolidated accounts)	Modrá pyramida stavební spořitelna, a.s.	10 Dec 2014 in effect since 1 Jan 2015
Cost-re-invoicing agreement (from KB to MPSS) - OF	Modrá pyramida stavební spořitelna, a.s.	for 2017
Contract for the use of KB's sales network (including amendments nos. 1, 2, 3 and 4) (intermediation of deals – building saving contracts)	Modrá pyramida stavební spořitelna, a.s.	1 Mar 2005, Amendment No. 1 of 12 Jun 2009, Amendment No. 2 of 30 Sep 2010, Amendment No. 3 of 1 Oct 2011, Amendment No. 4 of 30 Apr 2014, Amendment No. 5 of 30 Jan 2015
Framework agreement for personal data processing (KB as administrator, MPSS as processor) - DIST	Modrá pyramida stavební spořitelna, a.s.	30 May 2009
Framework agreement for personal data processing (MPSS as administrator, KB as processor) including Amendment No. 1 - - DIST	Modrá pyramida stavební spořitelna, a.s.	30 May 2009, Amendment No. 1 of 12 Sep 2011
Agreement on KB call centre services including cost re-invoicing from KB to MPSS in 2014 - DIST	Modrá pyramida stavební spořitelna, a.s.	1 Jan 2010, Amendment No. 1 of 1 Sep 2016
Separate distribution agreement (Perfektní půjčka) including amendments nos.1, 2 and 3 - DIST	Modrá pyramida stavební spořitelna, a.s.	1 Apr 2011, Amendment No. 1 of 31 Jan 2013, Amendment No. 2 of 21 Jan 2014, Amendment No. 3 of 29 May 2014



Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Separate distribution agreement (MůjÚčet, G2.2) of 1 Apr 2011, including amendments nos. 1, 2, 3, 4, 5, 6, 7, 8, 9 - DIST	Modrá pyramida stavební spořitelna, a.s.	1 Apr 2011, Amendment No. 1 of 27 Apr 2012, Amendment No. 2 of 31 Jan 2013, Amendment No. 3 of 29 May 2014, Amendment No. 4 of 29 May 2014, Amendment No. 5 of 21 Oct 2014, Amendment No. 6 of 10 Nov 2015, Amendment No. 7 of 30 Nov 2015, Amendment no. 8 of 15 Aug 2016, Amendment No. 9 of 30 Dec 2016
Separate distribution agreement (A karta, Lady karta, Kreditní karta VISA Elektron) including amendments nos.1, 2, 3 and 4 – DIST (service procurement under the contract)	Modrá pyramida stavební spořitelna, a.s.	1 Apr 2011, Amendment No. 1 of 31 Jan 2013, Amendment No. 2 of 21 Jan 2014, Amendment No. 3 of 29 May 2014, Amendment No. 4 of 10 Nov 2015
Separate distribution agreement (mortgage and pre-mortgage loans), including amendments nos. 1, 2, 3, 4 and 5 - DIST	Modrá pyramida stavební spořitelna, a.s.	9 Sep 2011. Amendment No. 1 of 19 Dec 2011, Amendment No. 2 of 31 Jan 2013, Amendment No. 3 of 10 Nov 2015, Amendment No. 4 of 1 Apr 2016, Amendment No. 5 of 12 Jan 2017
Framework agreement for the provision of better conditions to KB and SG Group employees – MPSS building savings plan holders, including amendment No. 1 - DIST	Modrá pyramida stavební spořitelna, a.s.	1 Nov 2013, Amendment No. 1 of 10 Oct 2017
Co-operation agreement, including Amendment No. 1, including the marketing cost re-invoicing in 2016 from MPSS to KB and from KB to MPS DIST	Modrá pyramida stavební spořitelna, a.s.	31 Jan 2013, Amendment No. 1 of 16 May 2015
Distribution agreement for products “Úvěry pro bytová družstva a společenství vlastníků bytových jednotek,” including Amendment No. 1 - DIST(procurement of loans to housing co-operatives and apartment owners associations)	Modrá pyramida stavební spořitelna, a.s.	1 Nov 2013, Amendment No. 1 of 10 Nov 2015
Distribution agreement concerning the consumer loan product - DIST	Modrá pyramida stavební spořitelna, a.s.	18 Dec 2014
Confidentiality agreement relating to “HP OV SD license agreement” - IT	Modrá pyramida stavební spořitelna, a.s.	9 Feb 2009
Agreement to reimburse costs of license use (replacing the 2007 oral agreement to reimburse costs of license use), including Amendment No. 1 - IT	Modrá pyramida stavební spořitelna, a.s.	28 May 2009, Amendment No. 1 of 11 Feb 2010, validity extended orally

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Outsourcing agreement – data warehouse, including amendments nos. 1, 2, 3, 4 and 5 - IT	Modrá pyramida stavební spořitelna, a.s.	30 Jun 2011, Amendment no. 1 of 15 Oct 2011, Amendment No. 2 of 13 May 2013, Amendment no. 3 of 31 Dec 2013, Amendment no. 4 of 3 Nov 2014, Amendment no. 5 of 22 Jan 2016; cancelled by the Outsourcing agreement – data warehouse of 20 Jan 2017
Separate agreement No. 2 under IT service framework agreement of 24 Jan 2011, including Amendment No. 1 - IT	Modrá pyramida stavební spořitelna, a.s.	31 Oct 2011, Amendment No. 1 of 22 Dec 2016
Separate agreement No. 3 under IT service framework agreement of 24 Jan 2011, including Amendments nos. 1 and 2 - IT	Modrá pyramida stavební spořitelna, a.s.	31 Oct 2011 Amendments no. 1 and 2 of 15 Feb 2017
Separate agreement No. 4 under IT service framework agreement of 24 Jan 2011, including Amendment No. 1 and 2 - IT	Modrá pyramida stavební spořitelna, a.s.	31 Oct 2011, Amendment no. 1 of 5 Oct 2012, Amendment No. 2 of 29 Dec 2017
Separate agreement No. 1 under IT service framework agreement of 24 Jan 2011, including Amendments No. 1 and 2 - IT	Modrá pyramida stavební spořitelna, a.s.	31 Nov 2011, Amendment no. 1 of 5 Oct 2012 Amendment No. 2 of 1 Jan 2014
Separate agreement No. 5 relating to the IT service framework agreement of 24 Jan 2011 - IT	Modrá pyramida stavební spořitelna, a.s.	29 Jun 2012
Assignment and confirmation of user rights expiration (ORACLE) - IT	Modrá pyramida stavební spořitelna, a.s.	31 Oct 2016
Memorandum of understanding ORACLE license transfer - IT	Modrá pyramida stavební spořitelna, a.s.	31 Oct 2016
Separate agreement No. 6 under IT service framework agreement of 24 Jan 2011 - IT	Modrá pyramida stavební spořitelna, a.s.	15 Feb 2017
Outsourcing agreement – data warehouse IT	Modrá pyramida stavební spořitelna, a.s.	20 Dec 2017
Client scoring cooperation agreement - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Aug 2007
Agreement on KB-MPSS risk management co-operation and relating SLA (8) - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA – Agreement on scoring calculator for MPSS - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA – Agreement on pre-scoring of clients and negative information delivery - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA – Agreement on scoring model for HC and AO - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA – Agreement on delivery of inputs for real estate revaluation - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA – Agreement on exchange of fraud lists - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA – Agreement on co-operation on IRBA implementation in MPSS - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA – Agreement on data administration and delivery for claim reporting - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA – Agreement on risk services remuneration - RISK (price for risk management co-operation services)	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
Agreement - Services PD/LGD Models for RWA calculation - RISK	Modrá pyramida stavební spořitelna, a.s.	18 Dec 2014
Contract for negative information exchange within KB/SG FG in the Czech Republic - RISK	Modrá pyramida stavební spořitelna, a.s.	19 Feb 2016
Contract for the personal data protection and provision (debt collection) - RISK	Modrá pyramida stavební spořitelna, a.s.	29 Feb 2016
Memorandum of understanding – Co-operation within KB FG in mass claim assignment - RISK	Modrá pyramida stavební spořitelna, a.s.	3 Mar 2016
Framework contract for employee temporary assignment, including Amendment No. 1; reimbursement of costs incurred in connection with employee temporary assignment	Modrá pyramida stavební spořitelna, a.s.	1 Dec 2006, Amendment no. 1 of 31 Jul 2007

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Mutual co-operation agreement of 31 Aug 2007 including Amendment No. 1 - HR	Modrá pyramida stavební spořitelna, a.s.	1 Aug 2007, Amendment no. 1 of 1 Jul 2010
Confidentiality agreement relating to “Outsourcing agreement (HR services)”	Modrá pyramida stavební spořitelna, a.s.	27 Apr 2010
Outsourcing agreement (HR services) including Amendment No. 1 - HR	Modrá pyramida stavební spořitelna, a.s.	30 Nov 2010, Amendment no. 1 of 20 Dec 2013
Agreement – Outsourcing of HR services (excluding Payroll) - HR	Modrá pyramida stavební spořitelna, a.s.	29 Jan 2016
Lease of garage parking places including Amendment No. 1 - OTS	Modrá pyramida stavební spořitelna, a.s.	31 Jan 2007, Amendment no. 1 of 30 Apr 2013
Lease of non-residential premises and payment of relating services (Uherský Brod) - OTS	Modrá pyramida stavební spořitelna, a.s.	20 Nov 2008
Confidentiality agreement relating to the “Contract of cooperation in the area of sourcing and procurement” - OTS	Modrá pyramida stavební spořitelna, a.s.	9 Jul 2010
Accession to the rules of co-operation between KB and group members in the area of sourcing and procurement of 13 Sep 2010 - OTS	Modrá pyramida stavební spořitelna, a.s.	16 Sep 2010
Framework service agreement including Amendment No. 1 - OTS	Modrá pyramida stavební spořitelna, a.s.	24 Jan 2011, Amendment No. 1 of 11 Oct 2011
Agreement to enter into a sublease of non-residential premises and payment of relating services - OTS	Modrá pyramida stavební spořitelna, a.s.	1 Sep 2014
Sublease of non-residential premises and payment of relating services - OTS	Modrá pyramida stavební spořitelna, a.s.	1 Sep 2014
Lease of non-residential premises and payment of relating services (Antala Staška 2059, Prague 4), including Amendment No. 1 - OTS	Modrá pyramida stavební spořitelna, a.s.	1 Dec 2014 Amendment No. 1 of 30 Dec 2016
Lease of non-residential premises and payment of relating services (Kyjov) - OTS	Modrá pyramida stavební spořitelna, a.s.	27 Jul 2015
Insurance contract No. 7720935797 – Property risk insurance	Modrá pyramida stavební spořitelna, a.s.	1 Jan 2016 – 31 Dec 2017
Contract for the payment of insurance premium and of insurance broker's commission - OTS	Modrá pyramida stavební spořitelna, a.s.	30 Jun 2016
Confidentiality Agreement/- quadrilateral contract - OTS	Modrá pyramida stavební spořitelna, a. s. BHW Holding AG and Česká pojišťovna, a.s.	11 Aug 2006
Agreement on the Organisation of Periodic Control including Amendment No. 1 - OTS	Modrá pyramida stavební spořitelna, a. s. and Société Générale S.A.	17 Dec 2010, Amendment No. 1 of 6 Dec 2012
Agreement for co-operation in performance of the Group Insurance Agreement on work-related accident and occupational disease insurance for Members of Board of Directors and Administrators of the Financial Group of Komerční banka/SG N *333000000	Modrá pyramida stavební spořitelna, a. s. and Société Générale S.A.	1 Jul 2016 – 30 Jun 2017
Agreement for co-operation in performance of the Group Insurance Agreement on work-related accident and occupational disease insurance for Members of the Board of Directors and Administrators of the Financial Group of Komerční banka/SG N *334000000	Modrá pyramida stavební spořitelna, a. s. and Société Générale S.A.	1 Jul 2017 – 30 Jun 2018
Agreement for co-operation in performance of Contract for employee group risk insurance No. 3280000000, in the wording of Amendment No. 1 of 29 Jun 2012 - DIST	Modrá pyramida stavební spořitelna, a. s., and Komerční pojišťovna a.s.	10 Sep 2012
Global terms of business	Newedge Group (Frankfurt branch), (now Société Générale)	31 Dec 2010
Transfer of futures accounts	Newedge Group (UK branch), (now Société Générale)	26 Jun 2009
Clearing Agreement (Appendix 4 - FOA Clearing Module)	Newedge UK Financial Limited (now Société Générale Newedge UK Limited)	23 Apr 2015
Novation agreement	Newedge UK Financial Limited (now Société Générale Newedge UK Limited)	7 Oct 2011
Newedge EMIR reporting services agreement	Newedge UK Financial Limited (now Société Générale Newedge UK Limited)	3 Feb 2014
Agreement + Application for client + Representation letter	SG, Newedge; Eurex Clearing AG (Frankfurt)	26 Jun 2014
AGREEMENT ON CONSULTANCY SERVICES	OHRIDSKA BANKA AD SKOPJE	1 Jan 2016

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Agreement for co-operation in performance of the Group Insurance Agreement on work-related accident and occupational disease insurance for Members of the Board of Directors and Administrators of the Financial Group	PEMA Praha, spol. s r.o.	25 Mar 2015
Custody agreement	Protos uzavřený investiční fond, a.s.	9 Jul 2007
Service level agreement	Protos uzavřený investiční fond, a.s.	8 Dec 2014
Administration order	Protos uzavřený investiční fond, a.s.	9 Dec 2015
ISDA Master Agreement (FX transactions framework agreement)	SG Bank & Trust (SGBT)	7 May 2010
Sub-Custody & Brokerage Service Agreement	SG Bank & Trust (SGBT)	1 Apr 2011
AGREEMENT ON CONSULTANCY SERVICES (Cash Management)	SG Banka Srbija	1 Jan 2016
Lease of non-residential premises and payment of relating services + 1 amendment – Ostrava	SG Equipment Finance Czech Republic s.r.o.	1 Dec 2014
Lease of non-residential premises, movable assets and payment of relating services + 4 amendments – Prague	SG Equipment Finance Czech Republic s.r.o.	21 Oct 2013
Lease of non-residential premises and payment of relating services – Pilsen	SG Equipment Finance Czech Republic s.r.o.	30 Sep 2015
Lease of non-residential premises, movable assets and payment of relating services – Ústí nad Labem	SG Equipment Finance Czech Republic s.r.o.	28 Jan 2016
Lease of non-residential premises and payment of relating services – České Budějovice	SG Equipment Finance Czech Republic s.r.o.	27 May 2011
Sublease agreements for parking places – Prague + 2 amendment	SG Equipment Finance Czech Republic s.r.o.	30 Oct 2013
Lease of non-residential premises and payment of relating services + 6 amendments – Bratislava	SG Equipment Finance Czech Republic s.r.o.	30 Oct 2012
Framework agreement for the rental of employee-driven motor vehicles	SG Equipment Finance Czech Republic s.r.o.	21 Oct 2014
Individual pricing agreement	SG Equipment Finance Czech Republic s.r.o.	15 Dec 2006
Individual pricing agreement	SG Equipment Finance Czech Republic s.r.o.	27 Jun 2014
Framework agreement to provide financial services (7181080BE0000) + 11 amendments	SG Equipment Finance Czech Republic s.r.o.	20 Dec 2010
Framework service agreement	SG Equipment Finance Czech Republic s.r.o.	14 Dec 2010
Framework agreement to provide financial services (RAS) reg. No. 9900022630000 + 4 amendments	SG Equipment Finance Czech Republic s.r.o.	29 Sep 2014
Framework agreement to provide financial services (11/12/BA) + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	6 Aug 2012
Separate agreement No. 1 – Provision of technical infrastructure services, connectivity services	SG Equipment Finance Czech Republic s.r.o.	1 Jun 2012
Separate agreement No. 2 – Provision of technical infrastructure services, physical hosting of equipment	SG Equipment Finance Czech Republic s.r.o.	1 Jun 2012
Separate agreement No. 3 – Provision of technical infrastructure services, IT infrastructure hosting (VMWare)	SG Equipment Finance Czech Republic s.r.o.	1 Jun 2012
Co-operation agreement – Jobs	SG Equipment Finance Czech Republic s.r.o.	14 Apr 2010
Service contract – Access to C4M	SG Equipment Finance Czech Republic s.r.o.	12 Oct 2011
Agreement on reimbursement of cost	SG Equipment Finance Czech Republic s.r.o.	13 Dec 2013
Service level agreement	SG Equipment Finance Czech Republic s.r.o.	1 Sep 2014
Service agreement + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	30 Oct 2013
Service agreement – Outsourcing (HR services)	SG Equipment Finance Czech Republic s.r.o.	15 Jun 2011
Mutual co-operation agreement	SG Equipment Finance Czech Republic s.r.o.	1 Aug 2007
Agreement on KB Call Centre services	SG Equipment Finance Czech Republic s.r.o.	31 Dec 2009
Personal data processing framework agreement between KB and SGEF	SG Equipment Finance Czech Republic s.r.o.	1 Dec 2010
Co-operation agreement	SG Equipment Finance Czech Republic s.r.o.	30 Jun 2010
Rules of co-operation between KB and Group members in the area of sourcing and acquisitions	SG Equipment Finance Czech Republic s.r.o.	20 Sep 2010
Agreement for co-operation in performance of the contract for employee group risk insurance	SG Equipment Finance Czech Republic s.r.o.	20 Aug 2012
Confidentiality agreement	SG Equipment Finance Czech Republic s.r.o.	1 Dec 2010
Confidentiality agreement	SG Equipment Finance Czech Republic s.r.o.	9 Jul 2010
Agreement on framework insurance contract No. 7720802024 + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	10 Feb 2014
Data processing and service agreement	SG Equipment Finance Czech Republic s.r.o.	18 Feb 2010
Lease of land	SG Equipment Finance Czech Republic s.r.o.	19 Mar 2015
Sublease of parking places + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	30 Dec 2014

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Framework agreement for the provision of financial services 06/15/BA	SG Equipment Finance Czech Republic s.r.o.	21 Apr 2015
Cooperation agreement	SG Equipment Finance Czech Republic s.r.o.	1 Sep 2016
Service contract – Safety at work, environment protection, fire protection + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	23 Feb 2016
Letter Of Guarantee No. 06/16/BA	SG Equipment Finance Czech Republic s.r.o.	1 Apr 2016
Contract for the payment of insurance premium and of insurance broker's commission	SG Equipment Finance Czech Republic s.r.o.	14 Jun 2016
Agreement - outsourcing of HR services (excluding payroll)	SG Equipment Finance Czech Republic s.r.o.	1 Sep 2016
Database usage license agreement	SG Equipment Finance Czech Republic s.r.o.	29 Jun 2016
Service agreement - BI services	SG Equipment Finance Czech Republic s.r.o.	30 Jun 2016
Contract for exchange of negative client information within KB/SG Financial Group in the Czech Republic	SG Equipment Finance Czech Republic s.r.o.	30 Jan 2017
Separate agreement No. 6 - provision of technical infrastructure solution services – e-mail	SG Equipment Finance Czech Republic s.r.o.	23 Mar 2017
Separate agreement No. 4 - provision of technical infrastructure solution services – VoIP	SG Equipment Finance Czech Republic s.r.o.	23 Mar 2017
Separate agreement No. 7 - provision of technical infrastructure solution services – Fileshare	SG Equipment Finance Czech Republic s.r.o.	21 Jun 2017
Framework agreement for the provision of financial services 06/15/BA	SG Equipment Finance Czech Republic s.r.o.	21 Apr 2015
Cooperation agreement	SG Equipment Finance Czech Republic s.r.o.	1 Sep 2016
Letter Of Guarantee No. 13/17/BA	SG Equipment Finance Czech Republic s.r.o.	1 Jul 2017
Framework agreement for the rental of employee-driven motor vehicles - Bratislava	SG Equipment Finance Czech Republic s.r.o.	17 May 2016
Framework agreement to lease a vehicle	SG Equipment Finance Czech Republic s.r.o.	20 Dec 2017
Agreement on the Organisation of Periodic Control + 1 amendment	SG Equipment Finance Czech Republic s.r.o. + SOCIÉTÉ GÉNÉRALE	26 Jan 2011
Commercial Framework Agreement	SG Equipment Finance Czech Republic s.r.o., ECS Int. CZ s.r.o.	21 Dec 2005
AGREEMENT ON CONSULTANCY SERVICES (Cash Management)	SG Expressbank AD	1 Jan 2016
Terms for Business for Treasury Equities, Derivatives and Fixed Income Products	SG London	4 Oct 2007
Appointment of process agent for Komerční banka, a.s.	SG London	6 May 2011
Appointment of process agent for Komerční banka, a.s.	SG London	14 Sep 2011
Appointment of process agent for Komerční banka, a.s.	SG London	23 Jan 2013
Custody contract	SG Montenegro	2 Dec 2014
AGREEMENT ON CONSULTANCY SERVICES (Cash Management)	SG Montenegro	1 Jan 2016
Appointment of process agent for Komerční banka a.s., including an amendment	SG New York	12 Jan 2004
USD clearing services agreement for Komerční banka, including an amendment	SG New York	7 Aug 2015
SOGE USD-Clearing Services Agreement	SG New York	5 Sep 2006
6x Sending reports to SG Economic, Equity and Strategy Research	SG Paris	2002
Analytical coverage of the Czech Republic for the needs of SG Research	SG Paris	2002
Exchange of opinions on the macroeconomic situation	SG Paris	2002
Exchange of opinions on economic development with SG analysts	SG Paris	2002
Exchange of opinions on financial markets development	SG Paris	2002
Revisions of written texts	SG Paris	2012
Inserting KB's analytical reports, economic and strategic analyses in SG's database of analyses	SG Paris	2002
ISDA master agreement (intermediation of transactions with all types of derivatives on the interbank market)	SG Paris	23 Nov 1998
Amendment to the ISDA Master Agreement dated as of 23 November 1998	SG Paris	19 Apr 2017
Credit Support Annex to the ISDA Master Agreement dated as of 23 November 1998	SG Paris	19 Apr 2017
Global master Repurchase Agreement (framework agreement to close repo and buy-sell-back deals)	SG Paris	4 Nov 2003
Contract on the provisions of services relating to securities (custody contract)	SG Paris	19 Jul 2004
General terms and conditions for use of e-confirmation	SG Paris	10 Feb 2005
Sub-custodian service agreement	SG Paris	16 Sep 2005
Sub-custodian service agreement	SG Paris	12 Dec 2005

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Agreement relating to the intermediation in the sale of market products linked to investment banking activity in the Czech Republic	SG Paris	22 Dec 2006
Agreement relating to the use of the Glass Custody Tool	SG Paris	8 Mar 2007
Custodian services agreement	SG Paris	8 Mar 2007
ISDA master agreement (emission allowances)	SG Paris	23 Nov 2007
Co-operation agreement (framework conditions of co-operation in the area of internal audit)	SG Paris	31 Mar 2008
Service level agreement on credit RWA calculation + Amendment No. 1	SG Paris	20 Jul 2008, 18 Dec 2013
Credit support annex (financial collateral transactions)	SG Paris	27 Oct 2009
Custody contract	SG Paris	19 Feb 2010
Intra-group corporate services fees agreement	SG Paris	11 Jun 2010
Intra-group IT services fees agreement	SG Paris	11 Jun 2010
Bilateral agreement on rate reset and payment notices produced by the ISDA Operations Committee	SG Paris	6 Oct 2010
SOGE Deposit Account Agreement	SG Paris	2 Apr 2009
SOGE Swiftnet Network	SG Paris	10 May 2004
SOGE EURO Account Maintenance & Clearing Service Agreement	SG Paris	16 Jan 2008
Service Agreement (SoGePass)	SG Paris	26 Apr 2006
MT101 Agreement	SG Paris	14 Feb 2003
STEP2 Service level agreement, STEP2 Indirect participant notification	SG Paris	11 Jun 2004, 10 Dec 2007
FileAct SLA agreement for SEPA transfers	SG Paris	4 Mar 2008
T3C competence centers agreement including 1 amendment	SG Paris	22 Feb 2011
Amendment to Service Level Agreement (back-up procedure conditions)	SG Paris	13 Mar 2013
Amendment for incoming or outgoing XML SEPA Credit Transfer and SEPA Direct Debit messages - Euro Account Maintenance & Clearing Service Agreement	SG Paris	30 Dec 2013
IT Services Agreement	SG Paris	1 Jan 2014
Amendment for incoming or outgoing XML SCT (SEPA Credit Transfer) and SDD (SEPA Direct Debit) messages	SG Paris	13 Jan 2014
Service Level Agreement (SGCIB Global Applications)	SG Paris	7 Aug 2014
Consent Form (Derivatives Trade Reporting)	SG Paris	30 Sep 2015
Agreement relating to the use of SGSS Gallery for custody reports	SG Paris	21 Oct 2015
International Sogexpress Agreement	SG Paris	24 Jun 2016
Service Level Agreement	SG Paris	27 Oct 2016
Service Level Agreement (SLA) for SWIFTNET and associated services	SG Paris	20 Mar 2017
Client Service Agreement - Regulatory Capital Calculation and allocation of operational risk	SG Paris	25 May 2017
Service Level Agreement (SLA) for GTB platform	SG Paris	28 Aug 2017
Market Activities Business-ECM Transfer pricing agreement	SG Paris	1 Apr 2017
Credit Support Annex for Variation Margin (2x)	SG Paris	4 Jul 2017
Collateral Transfer Agreement (4x)	SG Paris	4 Jul 2017
Euroclear Security Agreement (2x)	SG Paris	4 Jul 2017
Clearstream Security Agreement (2x)	SG Paris	4 Jul 2017
Framework Agreement for the Distribution of Primary Market Transactions (2x)	SG Paris	10 Apr 2017
Work Order (4x)	SG Paris	16 Nov 2017
RISK-PARTICIPATION AGREEMENT	SG Paris	6 Nov 2017
Consultancy services related to the transformation of KB model.	SG Paris	20 Nov 2017
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, ALD Automotive SIA	23 May 2011
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, ALD Automotive UAB	17 May 2011
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, ALD EESTI AS	7 Jun 2011
Agreement on the organisation of periodic control	SG Paris, Komerční pojišťovna, a.s.	24 Jun 2013
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, ALD Automotive Hungary	28 Feb 2011
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, ALD Automotive Polska	28 Mar 2011
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, ALD Automotive s.r.o.	19 Apr 2011



Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, PEMA Polska	15 Feb 2011
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, PEMA Prague	11 Mar 2011
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, PEMA Slovakia	11 Mar 2011
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, SG Equipment Leasing Hungary	29 Mar 2011
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, SG Equipment Leasing Polska	13 Sep 2011
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, SG Vehicle Finance Hungary Plc.	29 Mar 2011
Agreement on the organisation of periodic control	SG Paris, SG Warszawa	30 Dec 2011
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, SGEF Hungary Plc.	29 Mar 2011
Contact Bank Agreement	SG Private Wealth Management S.A.	29 Apr 2016
Distribution Agreement	SG Private Wealth Management S.A.	30 Apr 2016
Custody contract	SG Securities Services	8 Mar 2011
Custody agreement	SG Splitska Banka	26 May 2010
Custody agreement	SG Splitska Banka	28 May 2012
Service level agreement relating to a custody agreement	SG Splitska Banka	27 Nov 2013
Agreement on the organisation of periodic control	SG Splitska Banka	31 Jan 2015
Agreement on the termination of periodic control	SG Splitska Banka	14 Apr 2017
Custody Account Agreement	SG Warszawa	13 Nov 2009
Service Level Agreement (custody services)	SG Warszawa	13 Nov 2009
EORS Acceptance Letter	SG, Newedge	2 Apr 2015
Brokerage Conformity Agreement (distribution agreement)	SGAM AI	10 Jul 2004
Introduction Broker Agreement (SGAM funds purchases)	SGAM AI	19 Feb 2007
EURO medium-term note master purchase agreement (securities trading)	SGAM Banque	13 Jul 2007
Novation agreement (revision of securities trading conditions)	SGAM Banque	29 Mar 2010
Custody contract	SKB Banka	28 May 2015
Custody agreement	SKB Banka	14 Sep 2016
Service level agreement	SKB Banka	30 Sep 2016
AGREEMENT ON CONSULTANCY SERVICES (Cash Management)	SKB Banka	1 Jan 2016
Agreement on the organisation of periodic control	SKB Banka, SG	15 Nov 2017
Service agreement – Outsourcing (accounting services)	STD2	1 Nov 2017
Contract for the payment of insurance premium and of insurance broker's commission	STD2	31 Oct 2017
Contract assignment agreement	STD2 x Arcadis Czech Republic s.r.o.	1 Nov 2017
Lease of non-residential premises and payment of relating services + 5 amendments	VN 42, s.r.o.	18 Nov 2013, 14 Dec 2013, 22 Dec 2014, 9 and 19 Feb 2015, 31 Dec 2015, 1 Mar 2017
Service agreement – Outsourcing (support services) + 1 amendment	VN 42, s.r.o.	18 Nov 2013, 5 Sep 2017
Service agreement – Outsourcing (accounting services)	VN 42, s.r.o.	3 Nov 2014
Framework agreement for deposit bills trading	VN 42, s.r.o.	6 Oct 2014
Contract for the usage of KB eTrading	VN 42, s.r.o.	6 Oct 2014
VAT group co-operation agreement	VN 42, s.r.o.	15 Jul 2014
Contract for the payment of insurance premium and of insurance broker's commission	VN 42, s.r.o.	8 Jun 2016

### C. Assessment of advantages and disadvantages arising from the relations within the Group and assessment as to injury

#### Advantages and disadvantages arising from the relations within the Group

The SG Group is diversified and provides universal banking services. The entire Group takes advantage of mutual synergistic effects, including product pooling, a strong international brand and SG's know-how. KB, for example, uses SG's global network to provide Trade Finance Products while co-operating in the payments area and using SG's wide network. Thanks to the Group, it is possible for KB to use the global cash pooling network, offer transnational solutions in the cash management area and offer SG products. KB benefits from SG's global experience in the Global Finance Platform area. The advantages from the KB's integration into the SG Group contribute to the KB's positive financial results.

#### Assessment of injury

KB's Board of Directors has reviewed all arrangements between the Company and the companies that were part of the Group during the 2017 reporting period and states that the KB incurred no injury as a result of any contracts, agreements or any other legal acts in effect or adopted by the Company or as a result of any other influence otherwise exerted by SG in the reporting period.

In Prague on 6 March 2018



**Jan Juchelka**  
Chairman of the Board of Directors  
Komerční banka, a.s.

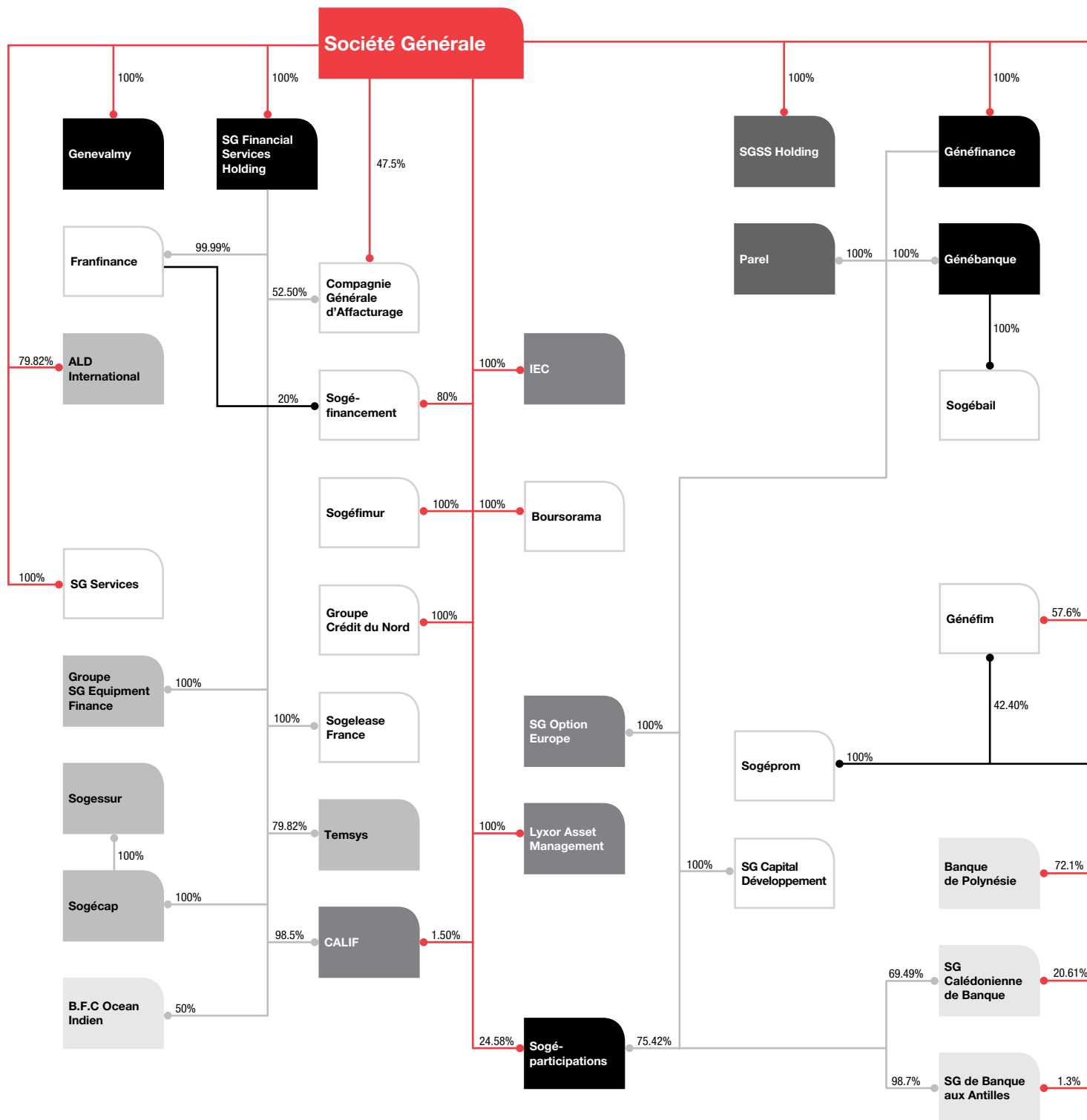


**Peter Palečka**  
Member of the Board of Directors  
Komerční banka, a.s.

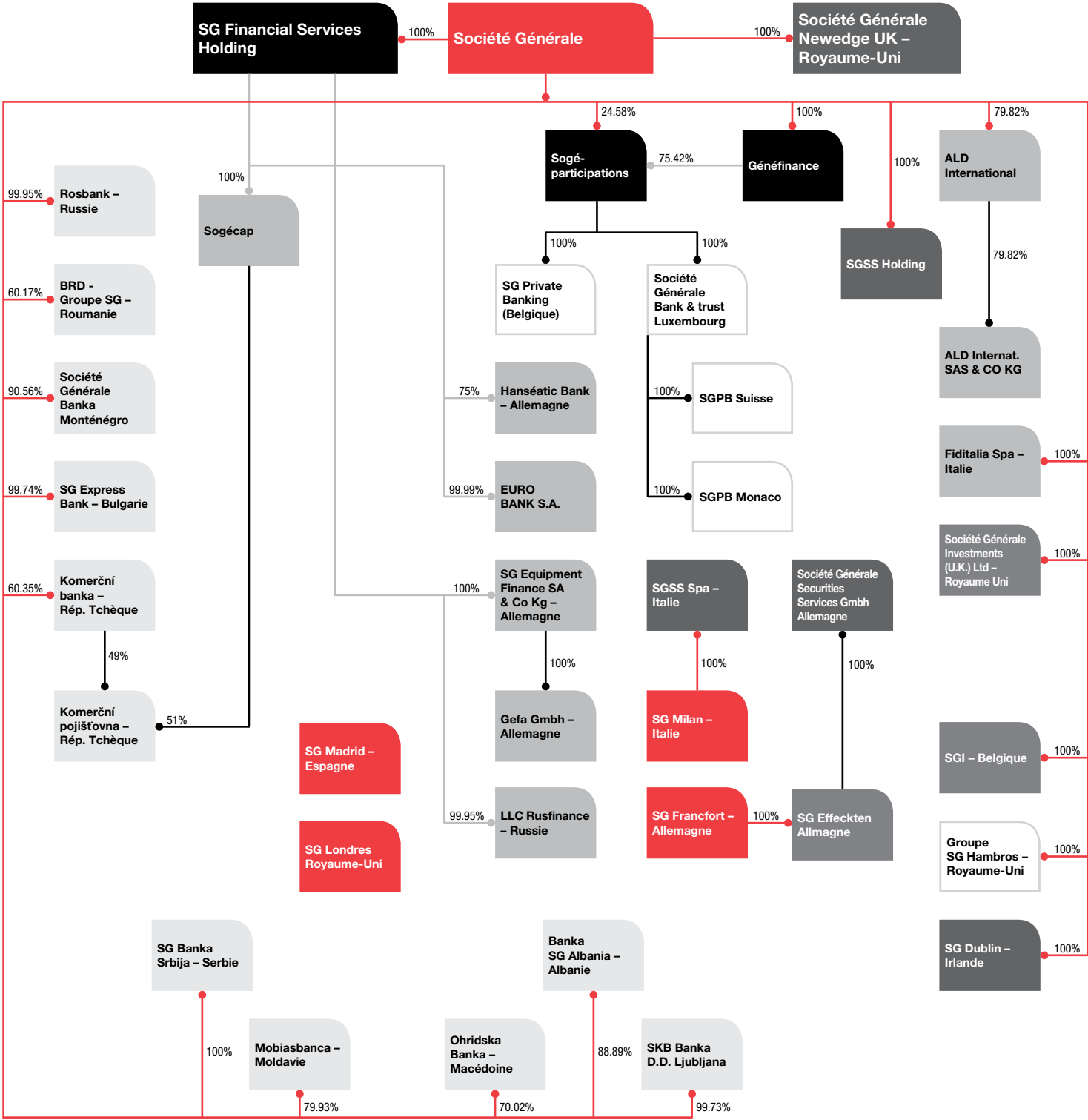
# The structure of relationships SG Group –

% of the share capital

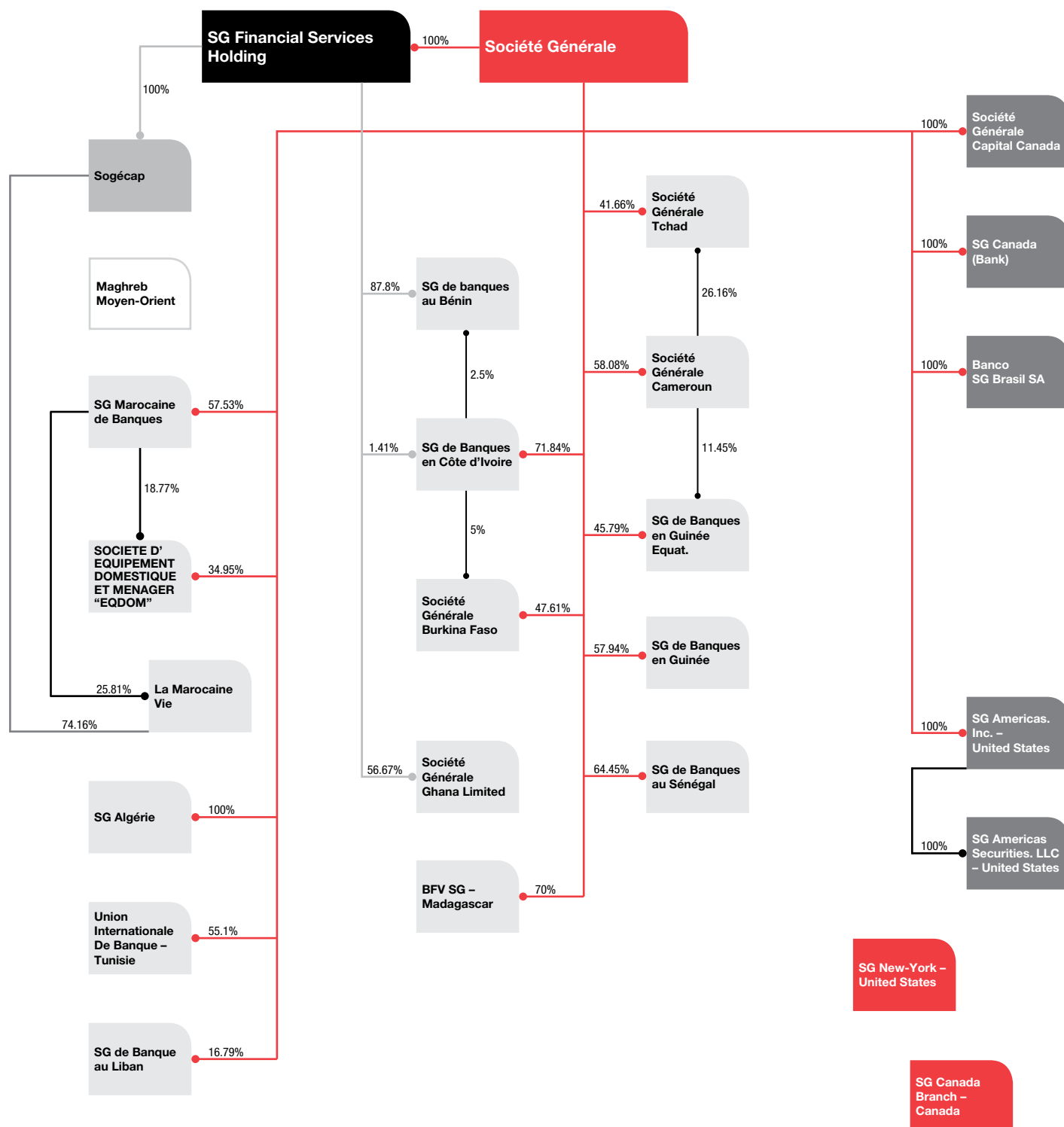
## FRANCE



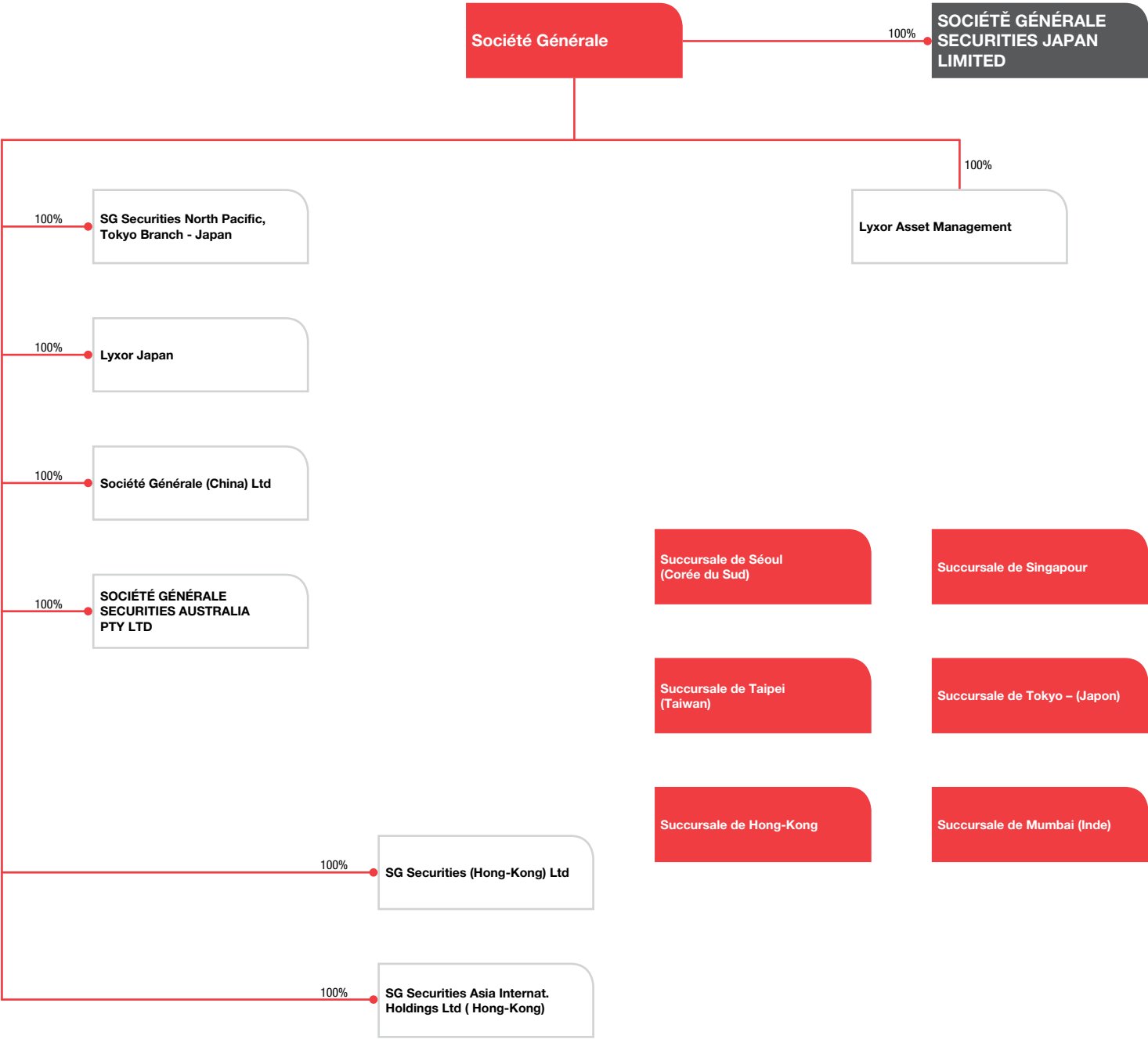
Note: Share capital and of the voting rights may vary



Note: Share capital and of the voting rights may vary



Note: Share capital and of the voting rights may vary



Note: Share capital and of the voting rights may vary



## Report of the Supervisory Board

Throughout 2017, the Supervisory Board carried out the tasks as defined by law and by the Articles of Association. It supervised the exercise of powers by the Board of Directors, checked the accounts and other financial documents of Komerční banka, a.s., ascertained the effectiveness of the management and control system and made its regular assessments.

Having checked the Bank's annual (separate) and consolidated financial statements for the period from 1 January 2017 to 31 December 2017, the Supervisory Board reports that the accounts and financial documents were maintained in a transparent manner and in accordance with generally binding regulations providing for banks book-keeping. The accounts and financial documents show all important aspects of the financial situation of Komerční banka, a.s., and the financial statements prepared on their basis give a true and fair view of the Bank's and Group's accounting and financial situation.

The Supervisory Board recommends that the general meeting approve the annual (separate) and consolidated financial statements and the distribution of profit for the year 2017 as proposed by the Board of Directors of the Bank.

The Supervisory Board checked the Report on Relations among Related Entities in 2017 drawn up under S. 82 et seq. of the Corporations Act, and states on the basis of the presented documents that, during the accounting period from 1 January 2017 to 31 December 2017, Komerční banka, a.s. did not suffer any harm resulting from the contracts, agreements, other legal acts made or adopted by the Bank or from any influence otherwise exerted by Société Générale.

Prague, 14 March 2018

On behalf of the Supervisory Board of Komerční banka, a.s.:



**Jean-Luc Parer**  
Chairman

## Management affidavit

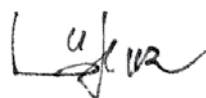
To the best of our knowledge, we believe that this annual report gives a true and fair view of the Bank's and Group's financial position, business activities and results from the year 2017, as well as of the outlook for the development of the Bank's and Group's financial situation, business activities and results.

Prague, 20 March 2018

Signed on behalf of the Board of Directors:



**Jan Juchelka**  
Chairman of the Board of Directors and Chief Executive Officer



**Libor Löfler**  
Member of the Board of Directors and Senior Executive Director, Chief Operating Officer

# Independent Auditor's Report

to the Shareholders of Komerční banka, a.s.

## INDEPENDENT AUDITOR'S REPORT To the Shareholders of Komerční banka, a.s.

Having its registered office at: Na Příkopě 33 č.p. 969, 114 07, Prague 1

### Report on the Audit of the Consolidated and Separate Financial Statements

#### Opinion

We have audited the accompanying consolidated financial statements of Komerční banka, a.s. and its subsidiaries (hereinafter also the "Group") and separate financial statements of Komerční banka, a.s. (hereinafter also the "Company") prepared on the basis of International Financial Reporting Standards ("IFRS") as adopted by the EU.

The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2017, consolidated statement of income and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information (the "Consolidated Financial Statements").

The separate financial statements comprise the separate statement of financial position as at 31 December 2017, separate statement of income and separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory information (the "Separate Financial Statements").

In our opinion:

- The accompanying Consolidated Financial Statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying Separate Financial Statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

#### Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and the Council and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group and the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated and Separate Financial Statements of the current period. These matters were addressed in the context of our audit of the Consolidated and Separate Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Related audit procedures
<u>Allowances for the loans and advances to customers</u>	
(Please refer to Notes 21 and 43A to the Consolidated Financial Statements and to Notes 21 and 42A to the Separate Financial Statements for the details)	We evaluated whether the internal impairment policies comply with the requirement of the relevant accounting standard (IAS 39).
At 31 December 2017, gross loans and advances to customers (hereinafter "loans") comprised of CZK 610,849 million and CZK 545,654 million for the Group and the Company respectively against which allowances for loans to customers (hereinafter "allowances") of CZK 12,747 million and CZK 10,333 million were recorded, respectively. The directors exercise significant judgment when determining both when and how much to record as allowances.	<u>Testing of internal controls</u> We tested the design and operating effectiveness of the key internal controls to determine which loans and advances to customers are impaired and allowances for those assets. Our procedures included testing: <ul style="list-style-type: none"> <li>• System-based and manual controls over the timely recognition of impaired loans and advances;</li> <li>• Controls over the allowance calculation and allowance recording;</li> <li>• Controls over collateral valuation estimate;</li> <li>• The governance process of management validation of allowance calculations; and</li> <li>• IT controls relating to access rights and change management of relevant IT applications with the assistance of our IT specialists.</li> </ul>
The Group uses one of three methods to assess the amount of allowances:	<u>Identification of impaired loans</u> We tested a sample of loans and advances (including loans that had not been identified by management as potentially impaired) to form our own assessment as to whether impairment events had occurred and to assess whether impairments had been identified in a timely manner.
<ol style="list-style-type: none"> <li>1. For larger, individually significant loans classified as default (Substandard, Doubtful and Loss loans based on the Czech National Bank's classification) the allowances are assessed on an individual basis requiring management to monitor the borrower's repayment abilities individually including the estimated value from the collateral foreclosure and expected duration of the recovery process etc.</li> <li>2. For smaller, individually not significant impaired loans where the loans are homogeneous in nature (for example the consumer and mortgage loans to individuals and smaller corporate portfolios) the allowance is calculated by models using historical recovery statistics.</li> <li>3. Portfolio allowances are calculated for losses that have been incurred but have not been identified at the year-end. Portfolio allowances are held against non-impaired loans across all segments and calculated using models based on probabilities of default and loss given default as well as emergence periods between the impairment event occurring and an individual (1.) or model allowance for impaired loans (2.) being recognised.</li> </ol>	<u>Allowances for loans determined individually (1.)</u> For individually assessed loans we selected a sample of loans and, where we deemed them to be impaired, tested the estimation of the future expected cash flows from customers including from realisation of collateral held. This work involved assessing the work performed by external experts used by the Group to value the collateral or to assess the estimates of future cash flows. In some cases, we used our own industry experts, particularly in respect of commercial real estate, to assess the appropriateness of valuations and estimates used by the Group. Where we determined that a more appropriate assumption or input in provision measurement could be made, we recalculated the provision on that basis and compared the results in order to evaluate management estimate.
Because of the significance of these judgements and the size of loans and advances to customers, the audit of allowances is a key audit matter.	<u>Allowances for loans determined using statistical models for impaired loans (2. .)</u> For the allowances determined by models used by the Group, we were assessing, in cooperation with

Key audit matter	Related audit procedures
	<p>our credit risk specialists, the model methodology, the internal validation reports and results of the models back-testing for selected internal models. We assessed whether the modelling assumptions used considered all relevant risks were reasonable in light of historical experience, economic climate, current operational processes and the circumstances of the customers as well as our own knowledge of practices used by other similar banks. On a sample basis, we evaluated the appropriateness of risk parameters used in the calculation of allowances.</p> <p><u>Allowances for loans determined using statistical models for non-impaired loans (3.)</u></p> <p><u>We performed analytical procedures and benchmarking.</u></p>
Interest and fee income recognition	
<p>(Please refer to Notes 5 and 6 to the Consolidated and Separate Financial Statements for the details)</p> <p>For the year ended 31 December 2017 the interest income and similar income comprised of CZK 26,646 million and CZK 23,189 million for the Group and the Company respectively. Total fee and commission income for the same period comprised of CZK 7,631 million and CZK 6,605 million for the Group and the Company respectively. With the main source being customer loans and deposits these are the main contributors to the net operating income of the Company and the Group affecting the profitability.</p> <p>While interest income is accrued over the expected life of the financial instrument, the recognition of fee income depends on the nature of the fees as follows:</p> <ul style="list-style-type: none"> <li>• Fees that are directly attributable to the financial instrument are accrued over the expected life of such an instrument and are presented as interest income.</li> <li>• Fees for services provided are recognised when service is provided and are presented as fee and commission income.</li> <li>• Fees for the execution of an act are recognised when the act has been completed and are presented as fee and commission income.</li> </ul> <p>Revenue recognition specifics, a high volume of individually small transactions which depends on data quality of interest and fee inputs and on IT solutions for their recording resulted in this matter being identified as a key audit matter.</p>	<p>We tested the design and operating effectiveness of the key internal controls and focused on:</p> <ul style="list-style-type: none"> <li>• Assessment of interest/fees recognition during new product validation;</li> <li>• Interest/fee inputs on customer loans and deposits, including authorisation of the changes in the interest and fee price list and authorisation of non-standard interest/fees;</li> <li>• Recording of fee and interest income and management oversight; and</li> <li>• IT controls relating to access rights and change management of relevant IT applications with the assistance of our IT specialists.</li> </ul> <p>We evaluated the accounting treatment performed by the Company in respect of fees charged to clients to determine whether the methodology complies with the requirement of the relevant accounting standard.</p> <p>We focused our testing on challenging the correct classification of:</p> <ul style="list-style-type: none"> <li>• Fees that are identified as directly attributable to the financial instrument;</li> <li>• Fees that are not identified as directly attributable to the financial instrument.</li> <li>• We assessed the completeness and accuracy of data used for the calculation of interest using data analytics.</li> <li>• We evaluated the mathematical formula used for accruing the relevant income over expected life of the loan.</li> </ul>

#### Other Information in the Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the Consolidated and Separate Financial Statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the Consolidated and Separate Financial Statements does not cover the other information. In connection with our audit of the Consolidated and Separate Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated and Separate Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the Consolidated and Separate Financial Statements is, in all material respects, consistent with the Consolidated and Separate Financial Statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group and the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

**Responsibilities of the Company's Board of Directors, Supervisory Board and Audit Committee for the Consolidated and Separate Financial Statements**

The Board of Directors is responsible for the preparation and fair presentation of the Consolidated and Separate Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as the Board of Directors determines is necessary to enable the preparation of Consolidated and Separate Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated and Separate Financial Statements, the Board of Directors is responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and the Audit Committee are responsible for overseeing the Group and Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements**

Our objectives are to obtain reasonable assurance about whether the Consolidated and Separate Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated and Separate Financial Statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated and Separate Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated and Separate Financial



Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Consolidated and Separate Financial Statements, including the disclosures, and whether the Consolidated and Separate Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the Company to express an opinion on the Consolidated and Separate Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors, the Supervisory Board and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the Consolidated and Separate Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Report on Report on Relations among Related Entities (the "Report on Relations")**

We have reviewed the factual accuracy of the information included in the accompanying Report on Relations of Komerční banka, a.s. for the year ended 31 December 2017 which is included in this annual report on pages 259 to 282. This Report on Relations is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the Report on Relations based on our review.

We conducted our review in accordance with Auditing Standard 56 issued by the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the Report on Relations is free of material factual misstatements. A review is limited primarily to inquiries of the Company's personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the Report on Relations and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the Report on Relations of Komerční banka, a.s. for the year ended 31 December 2017 contains material factual misstatements.

The Company has decided not to disclose amounts under related party contracts citing business secrecy restrictions.

#### **Report on Other Legal and Regulatory Requirements**

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

##### Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 25.4.2017 and our total uninterrupted engagement including previous renewals has lasted for 3 years.

##### Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 14.3.2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the annual report.

Non-financial information report

In addition, in accordance with Section 32i of Act No. 593/1991 Coll., on Accounting, we checked that the reporting entity prepared a standalone report containing non-financial information.

In Prague on 20 March 2018

Audit firm:

Deloitte Audit s.r.o.  
registration no. 079



Statutory auditor:

David Batal  
registration no. 2147













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